BUDGET SUGGESTIONS

For 2011

Information Bulletin No. 536
August 2010

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$12 City/County/State/Local Government • $18 All Others **August 2010**

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Introduction

Here is your copy of *Budget Suggestions for 2011*. As always, we try to provide you with timely information, within the constraints we face in getting information from the state.

In this publication you will find:

- Descriptions and interpretations of 2010 legislation that may affect your budget.
- Inflation and state-shared revenue forecasts, including a look ahead to 2012.
- Articles on GASB Statement No. 54 by Stephen J. Gauthier of the Government Finance Officers Association and by the State Auditor's Office.
- An article on pension rates by Matt Smith, the Washington State Actuary.
- An article by Lynn Nordby on local governments and economic stress.
- An article on community facilities district legislation by Hugh Spitzer.
- An article by Mike Bailey of Renton on knowing where your cash is.
- A section on 2011 initiatives.

Judith Cox, our Public Finance Consultant, is the author of much of the material in this publication. We also have included contributions from the people noted above, and we thank them for their assistance. Holly Stewart designed and produced the document. Paul Sullivan, Carol Tobin, Connie Elliot, Peter Breen, and Pam James wrote, proofed and/or edited parts of the document. We hope this material will assist you as you go through the budget process and into 2011.

Richard Yukubousky
Executive Director

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Budget Calendar for Preparation of 2011 Budgets

in First (Under 300,000), Second, and Fourth Class Municipalities and Code Cities

Budget requirements for first (under 300,000) and second class municipalities, and towns are listed in chapter 35.33 RCW, as amended, and for cities under the Optional Municipal Code in chapter 35A.33 RCW, as amended. Chapter 35.32A RCW contains the budget law for cities over 300,000 population (Seattle).

Chapters 35.34 RCW and 35A.34 contain the provisions for a biennial budget. Thus far only a few cities are using the two-year budget process. Please see last page of budget calendar.

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2010 Date
1. Request by clerk to all department heads and those in charge of municipal offices to prepare detailed estimates of revenues and expenditures for next fiscal year (calendar year).	By second Monday in September.[1, 2]	September 13
2. Estimates are to be filed with the clerk.	By fourth Monday in September.[2]	September 27
3. Estimates are presented to the chief administrative officer (CAO) for modifications, revisions or additions. Clerk must submit to CAO proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed.	On or before the first business day in the third month prior to beginning of the fiscal year.	October 1

[1]RCW 35.33.031 actually provides "on **or before** the second Monday of the fourth month," etc. Therefore, pursuant to the state budget law, that step (and certain others) could be taken before the dates listed here. See also, RCW 35A.33.030.

[2]Or at such other time as the city or town may provide by ordinance or charter (RCW 35.33.031 and .051 and 35A.33.030 and .050).

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2010 Date
4. CAO provides the legislative body with current information on estimates of revenues from all sources as adopted in the budget for the current year. CAO also provides the legislative body with the clerk's proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed.	No later than the first Monday in October.	October 4
5. The legislative body must hold a public hearing on revenue sources for the coming year's budget, including consideration of possible increases in property tax revenues. (Chapter 251, Laws of 1995. codified as RCW 84.55.120.)	Before legislative body votes on property tax levy. Deadlines for levy setting are in item 8 below.	
6. CAO prepares preliminary budget and budget message[3] and files with the city legislative body and city clerk.	At least 60 days before the ensuing fiscal year.	November 2
7. Clerk publishes notice that preliminary budget has been filed and publishes notice of public hearing on final budget once a week for two consecutive weeks.	No later than the first two weeks in November.	November 2 through November 13
8. Setting property tax levies	November 30 for ***all*** cities and towns.	
9. The legislative body, or a committee thereof, must schedule hearings on the budget or parts of the budget and may require the presence of department heads.	Prior to the final hearing.	November 2 through 30 (suggested)
10. Copies of proposed (preliminary) budget made available to the public.	No later than six weeks before January 1.	November 19

[3]RCW 35.33.031 and RCW 35A.33.055 specify that the budget message must contain the following:

1. An explanation of the budget document;
2. An outline of the recommended financial policies and programs of the city for the ensuing fiscal year;
3. A statement of the relation of the recommended appropriation to such policies and programs;
4. A statement of the reason for salient changes from the previous year in appropriation and revenue items;
5. An explanation for any recommended major changes in financial policy.

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2010 Date
11. Final hearing on proposed budget.	On or before first Monday of December, and may be continued from day-to-day but no later than the 25th day prior to next fiscal year (December 7).	December 6
12. Adoption of budget for 2011.	Following the public hearing and prior to beginning of the ensuing fiscal year.	Day of your public hearing through December 31.
13. Copies of final budget to be transmitted to the State Auditor's Office and to MRSC.		After adoption

Biennial Budgets

All cities and towns that wish to begin budgeting on a biennial basis must pass an ordinance to that effect six months prior to the beginning of the fiscal year. For the 2011-2012 biennium, the last date to pass such an ordinance was June 30, 2010. Cities and town that missed that deadline must wait until the 2013-2014 biennium because the first year of a biennial budget must be an odd-numbered year.

The calendar for the initial preparation of a biennial budget is almost identical to that of an annual budget with some obvious differences, such as the substitution of "biennium" for "year." RCW 35.34.130 and RCW 35A.34.130 require that an ordinance be passed providing for a mid-biennial review and modification of the biennial budget. This must occur no sooner than eight months after the start (September 1, 2011) nor later than the end of the first year of the biennium (December 31, 2011). Notice and hearings are required as outlined in RCW 35.34.130 or RCW 35A.34.130. A complete copy of the budget modification, as adopted by ordinance, must be sent to MRSC and the State Auditor's Office.

Share Your Information Resources Through MRSC

In addition to the copies of the final budget you send to the State Auditor, please send copies to MRSC at:

Municipal Research and Services Center of Washington
2601 Fourth Ave, Suite 800 • Seattle, WA 98121-1280

We would also like other documents of general application to share with other cities and towns. The list of things we would like includes: ordinances; forms (tax, business license, job application, etc.); policies and procedures manuals (if you don't have a complete manual, but you do have bits and pieces, send those); job descriptions; interlocal agreements; examples of requests for proposals for anything; contracts; franchise agreements. In short, just about everything that is needed to run a city or town.

Budget Calendar for Preparation of 2011 Budgets

for Non-Charter Counties

The annual budget time-line requirements for non-charter counties in Washington are found in Chapter 36.40 RCW. According to RCW 36.40.071, the board of commissioners may set alternative dates for entire process to conform with the alternative preliminary budget hearing date.

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2010 Date
1. Call for Estimates. County Auditor notifies all officials to file budget requests and projected revenues for ensuing fiscal year. RCW 36.40.010.	On or before the second Monday in July	July 12
2. Filing of estimates with auditor or chief financial officer by all officials. RCW 36.40.010 and 36.40.030.	On or before the second Monday in August	August 9
3. Preliminary county budget prepared by auditor or chief financial officer submitted to board of commissioners. RCW 36.40.040 and 36.40.050.	On or before the first Tuesday in September	September 7
4. Preliminary budget hearing by board of commissioners. RCW 36.40.070.	First Monday in October	October 4
5. Alternative preliminary budget hearing by board of commissioners. RCW 36.40.071.	First Monday in December	December 6
6. Final budget adoption by board of commissioners. RCW 36.40.080.	Upon conclusion of budget hearing	Practically, December 31

Biennial Budgets (RCW 36.40.250)

Counties can start a biennial budget in any year. They are not limited to an odd-numbered year as cities are. And, their biennial budget statute gives no indication of when the ordinance or resolution providing for a biennial budget must be passed. From a practical standpoint, it probably needs to be done during the first half of the year so that departments can prepare the estimates that are due to the auditor in August.

2010 Legislation That May Affect Your Budget

Changes in Local Government Excise Taxes (ESHB 3179, Ch. 127, Laws of 2010)

0.3 Percent Sales and Use Tax under RCW 82.14.450. This legislation makes two changes to the existing statute. First, all language about supplanting is removed. You no longer need to worry if the new revenue is used to fund existing services. Second, it extends, in some circumstances, the authority, of cities to levy this tax at a rate not to exceed 0.1 percent, effective January 1, 2011.

Here are the "rules." The total rate of this tax may not exceed 0.3 percent. Therefore, if a county is levying this tax at a rate of 0.3 percent, then no city in that county may levy this tax. However, if a county is levying this tax at a rate of less than 0.3 percent, a city in that county may submit a ballot measure to the voters at the primary or general election to impose this tax at a rate not exceeding 0.1 percent, to be effective no sooner than January 1, 2011.[1] The ballot measure must state the uses: at least one-third of the revenue must be used for criminal justice purposes, fire protection purposes, or both. Sales of motor vehicles or leases of motor vehicles for up to the first 36 months are exempt from the tax, just as they are from a county tax.

If a county adopts a resolution or ordinance to levy this tax after a city in the county has done so, then the county must give a credit against the county tax for sales within the city to the extent that the sum of the city and county tax rates would exceed 0.3 percent. For example, if a city is levying the tax at a rate of 0.1 percent and the county passes a 0.3 percent tax, then the total tax paid in the city will be 0.3 percent, with 0.1 percent being the city tax and 0.2 percent being the county tax since there is a credit against the county tax for the city tax. If the city is levying a 0.1 percent tax and the county levies a 0.2 percent tax, then the total in the city is 0.3 percent, while it is only 0.2 percent in the unincorporated area of the county.

Fifteen percent of the proceeds of any tax levied by a city must be shared with the county.[2]

Cities in Pierce County May Be Able to Levy Mental Health Sales and Use Tax. Beginning January 1, 2011, a city with a population of more than 30,000 may levy the 0.1 percent tax for mental health under RCW 82.14.460 if the county has not done so. If, at some future date, the county levies the tax, it must give a credit against the county tax for any city tax.

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[1]The rules that apply when a county levies the public safety sales and use tax before a city in the county levies it apply when a county and a city in the county adopt resolutions/ordinances to submit, on the same date, ballot propositions to the voters to the levy the tax. RCW 82.14.450(2)(b), as amended by ch. 127, Laws of 2010, §1.

[2]RCW 82.14.450(7). Note that the "sharing with the county" provision works differently for this tax than for the optional 0.5 percent sales and use tax levied under RCW 82.14.030(2). In the case of the "optional" sales and use tax, the county receives a share only if its tax rate is equal or greater than the city tax. In the current case, however, if the city levies a 0.1 percent public safety tax and the county levies no tax, the county still receives 15 percent of the city revenues.

Brokered Natural Gas Use Tax. Cities where brokered natural gas is sold were given authority under RCW 82.14.230 to levy a use tax, in place of and at rate equal to the city's utility tax, on natural gas in 1990. However, in 2008, the state court of appeals held that, under the statutory definition, a person "uses" natural gas at such place where the person first takes "dominion and control" over the gas in the state, i.e., where it is purchased or at the state border, not the place of consumption.[1] So, when a person purchases natural gas from an independent marketer in one city in Washington and then consumes the gas in another city, the person "uses" the gas in the first city and may not be taxed for the use by the second city.

This bill amends RCW 82.12.010(6) to define "use" with respect to natural gas or manufactured gas that is taxable under RCW 82.12.022 (the state statute) and RCW 82.14.230 (the city statute) to be:

> the first act within this state by which the taxpayer consumes the gas by burning the gas or storing the gas in the taxpayer's own facilities for later consumption by the taxpayer; [Emphasis added.]

Supplanting Criminal Justice Funding under RCW 82.14.340. RCW 82.14 340 provides for a 0.1 percent sales and use tax to be levied by the county, with the proceeds shared with the cities in the counties. This bill eliminates a non-supplanting clause in the statute. This legislative action was primarily a "housekeeping" measure. Since the base year for measuring supplanting was 1989, it is unlikely that any county or city was currently using these funds to supplant other expenditures.

Gambling Tax Uses. Section 6 of this legislation broadened the use of this revenue. Now cities and counties that levy gambling taxes "must use the revenue from such tax primarily for the purpose of public safety." Previously, this statute stated that the revenue from this tax was to be used "primarily for the purpose of enforcement of the provisions of this chapter [Ch. 9.46 RCW]."

Maximum E-911 Tax Rates Increased (SSB 6849, Ch. 19, 1st sp. sess., Laws of 2010)

Both the state and counties have authority to levy a tax for enhanced 911 service. A county legislative authority may impose a countywide enhanced 911 excise tax on the use of switched access or wireline (what non-techies know as "regular" phones) telephones and wireless lines in an amount not to exceed 50 cents per month. According to the information reported to the state auditor on the Local Government Financial Reporting System for 2008, 31 counties were levying the tax on switched access telephones and 26 on wireless phones. The state levy is 20 cents per month. These revenues are restricted to expenditures related to emergency 911 services.

Beginning January 1, 2011, the maximum allowable tax rates for counties and cities will increase.[2] Counties may levy a tax on switched access and wireless phones at a rate not to exceed 70 cents per month. The new state maximum rate is 25 cents per month. In addition, both the county and

[1] *G-P Gypsum Corp. v. Dep't of Revenue*, 144 Wn. App. 664 (2008), review granted, 165 Wn.2d 1023 (2009).

[2] Counties must notify the Department of Revenue at least 75 days before the effective date of any rate change. Section 8, amending RCW 82.14B.060.

the state may impose their taxes on interconnected voice over internet protocol (VOIP) service lines.[1]

Counties have a new reporting requirement. Annually, they must provide information to the state enhanced 911 coordinator on the proportion of the tax they have spent on modernization of their existing E-911 system and on E-911 operations costs. They will also no longer be collecting these taxes. The companies will be remitting all taxes collected to the Department of Revenue. Counties will contract with the state for the administration and collection of the tax and the state will charge an administrative fee of not more than two percent. The funds will be remitted to the counties monthly by the state treasurer.

Utility Services Collections against Residential Property (ESB 6261, Ch. 135, Laws of 2010)

Cities and towns that provide water, electric light or power services to residents have a “lien” against the property served when a utility account is past due. The lien only covers the last four months of unpaid charges and may only be enforced by the termination of service. After August 1, 2010, for residential rental property, if the city or town fails to notify the owner of a tenant’s unpaid charges, there is no lien and the city or town is prohibited from collecting from the rental property owner, provided the owner has requested notice regarding past due utility amounts.

If the utility account is in a tenant’s name, the property owner is to provide written notice to the city or town within 14 days of the termination of the lease and the vacation of the premises. If the property owner fails to provide the notice, the city or town is not limited in its collection efforts to the last four months of unpaid charges, provided the city or town has given required delinquency notice to the owner.

For multiple residential units that receive utility service through a single utility account, if the billing address is not the same as the service address, or the city or town has been given notice that a tenant lives there, the city or town must make a “good faith and reasonable effort” to provide written notice to the service address of an impending termination of service for nonpayment at least seven days before the service termination. This notice allows the tenant an opportunity to resolve the delinquency with the landlord or to arrange for continued service. If the tenant requests it, the city shall provide the utility services on the same terms and conditions as other residential customers, without requiring the tenant to pay the delinquent amounts billed to the building owner or previous tenant. If a tenant requests utility services be placed in his or her name, the tenant may deduct from rent due all reasonable charges paid to the city or town; the landlord may not take reprisals or retaliatory action against a tenant who has made such deductions from rent.

The legislative changes do not affect the validity of any lien authorized by RCW 35.21.290 (lien for water, electric light and power) or RCW 35.67.200 (sewer lien). The city or town retains the right to collect from the property owner, previous tenant, or both, the delinquency amounts previously

[1]The state **must** levy the tax on switched access and VOIP lines at the maximum rate of 25 cents per line for calendar year 2011. By August 31, 2011 and August 31 of each succeeding year, the state enhanced 911 coordinator must recommend to the Washington Utilities and Transportation Commission (WUTC) the rates for the coming year, which the WUTC must set by October 31.

provided, if the city or town has met all notification requirements. The legislation also deletes language that disallowed a city's lien for further delinquent utility charges after the owner had given a written request to have the services cut off and had paid the then delinquent charges.

Community Facility Districts (ESSB 6241, Ch. 7, Laws of 2010)

Please refer to the article by Hugh Spitzer on page 44.

State Revenue Bill Provides Some Funds for Cities; Increases Service B&O Tax Rate (E2SSB 6143, Ch. 23, 1st sp. sess., Laws of 2010)

The Association of Washington Cities, in its *Final Legislative Bulletin*, reports that a Department of Revenue fiscal note shows an increase of $28.2 million for local governments in FY 2011 from the revenue measures in this bill. Eighty-four percent of this money ($23.7 million) will be received as increased sales tax from provisions in the bill that suspend the tax exemption for bottled water for three years and repeal the exemptions for candy and gum. Note that there are also provisions that provide revenue for only the state. One that has received some publicity is the tax of two cents per 12 ounces on sellers of carbonated beverages.

A provision that may impose costs on cities and counties is a temporary 0.3 percent surcharge on the state service B&O tax. This will raise the service B&O tax rate from 1.5 percent to 1.8 percent for the period July 1, 2010 through June 30, 2013. Here are reminders of some service B&O taxes paid by cities and counties. There may be others.

- Solid waste utility: WAC 458-20-250(8).
- Sewer utility for revenues from related business activities involving the interception, transfer, storage, treatment, and/or disposal of sewage as compared to “collection,” which is taxed at the utility tax rate: WAC 458-20-251(4).
- Drainage utility revenues: WAC 458-20-251(2)©.
- Services provided by utilities to new customer before the receipt of utility services: WAC 458-20-179(4).

Cities and counties should also refer to WAC 458-20-189(3)© and (d) and (4)(a)(l) to see if they have other kinds of activities, such as tennis and swimming lessons, that are considered to be “entrepreneurial” activities, and, therefore, subject to the service B&O tax. Note that if Initiative 1107 makes it on to the ballot and is passed by the voters, cities and counties will not receive these new revenues. The surcharge on the service B&O tax will remain, however. See the discussion of Initiative 1107 on page 53.

Payback on Water Conservation Loans (HB 2677, Ch. 5, Laws of 2010)

Loans made by cities, counties, or water and sewer districts may now be made for a period of 240 months (20 years). The previous loan period was 120 months (10 years).

Local Governments May Now Use Voter-approved Bonds for Financing of LOCAL Projects (SB 6218, Ch. 115, Laws of 2010)

Local governments that use the Office of the State Treasurer's Local Option Capital Asset Lending (LOCAL) program are now able to use voter-approved general obligation bonds issued under RCW 84.52.056 to finance their projects. Previously, they had to use councilmanic debt (non-voted bonds).

Cities and Counties May Now Levy Impact Fees for Fire Protection Districts (HB 1080, Ch. 86, Laws of 2010)

With the passage of this bill, facilities in fire protection districts may now be funded by impact fees. Previously, only fire protection facilities in jurisdictions that were not fire protection districts qualified.

Clarifications on Transportation Benefit District Funding (2SHB 1591, Ch. 105, Laws of 2010)

This bill has three provisions. First, it amends the definition of "transportation improvements" in RCW 36.73.015(3) to include projects included the transportation plan of a "city, county, or eligible jurisdiction as identified in RCW 36.73.020(2)" in addition to those in state and regional transportation planning organization plans. Second, impact fees levied by a transportation benefit district may used for projects constructed by other entities in addition to the transportation benefit district. Finally, it allows voter-approved sales taxes imposed after July 1, 2010 to levied for more than the ten years otherwise allowed if the revenue is used for debt service.

Public Records May Be Provided on the Web (SSB 6367, Ch. 69, Laws of 2010)

An entity may now respond to a public records request by providing a Internet address and a link to the requested records. If the requester says that he or she does not have Internet access, the entity must provide paper copies or access to the records on its computer.

Fire Protection District Annexations and Voted Debt (ESB 6287, Ch. 63, Laws of 2010)

If property in a city or town is subject to a levy for voter-approved debt for fire protection-related capital improvements at the time of annexation to a fire protection district, then that property is exempt from any voter-approved excess levy of the fire protection district for the payment of debt service authorized before the annexation.

Inflation Forecast

Consumer Price Index

The Consumer Price Index (CPI) is a measure of the change in prices paid over time for a fixed "market basket" of goods and services. The Consumer Price Index for All Urban Consumers (CPI-U) measures the percentage change in prices faced by urban consumers and covers approximately 87 percent of the population. The Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) is sometimes referred to as the "blue collar measure." It is a subset of the CPI-U. Its market basket reflects the expenditures of urban households that derive more than half their income from clerical and hourly wage jobs. It covers approximately 32 percent of the population.

Data for each of these indices for the United States as a whole are compiled on a monthly basis. The results are available during the third week of the following month. Each of these indices is published for the Portland-Salem area (formerly called the Portland-Vancouver index) twice a year. The results for the first half of the year are available during the third week of August. The second half figures are published in the third week of February. At the beginning of 1998, the Seattle-Tacoma index was renamed the Seattle-Tacoma-Bremerton index and expanded to include Island, Kitsap, and Thurston counties. It is compiled six times a year, in the even-numbered months. The results are published in the middle of the following month.

The Bureau of Labor Statistics recommends the use of one of the national indices for all contracts. Not only are the Seattle-Tacoma-Bremerton and Portland-Salem versions published less frequently, they also are based on a smaller sample and are, therefore, more volatile and subject to measurement error. **None** of these indices measures price changes in rural areas. But realizing that towns in rural areas need some indicator to use, we recommend one of the U.S. indices. Always write your contracts so that you will be adjusting on the basis of actual CPI figures. Never use estimates for contract adjustments.

A link to the most recent releases can be found at http://www.bls.gov/ro9/currentpc.pdf. Questions may be directed to BLSinfoSF@BLS.GOV or (415) 625-2270.

Table 1 on the following pages gives monthly historical information on the U.S. CPI-U and CPI-W, bimonthly data for Seattle, semiannual data for Seattle and Portland, and annual averages. The graphs on page 12 give historical information on the **annual average** CPI-U and CPI-W for the U.S., Seattle, and Portland, as well as some forecasts for 2010 and 2011.

We have forecasts for the national inflation rates from the Research Seminar in Quantitative Economics at the University of Michigan, Global Insight, the Livingston Survey from the Federal Reserve Bank of Philadelphia, and the Washington State Economic and Revenue Forecast Council. The Forecast Council uses the Global Insight estimate and the estimate of the Blue Chip consensus forecast for its forecast of the national CPI and we have used that as a guide. For the Seattle-Tacoma area, we depend on the Forecast Council and local economists. We are unable to get forecasts for the Portland area.

Roger Lowenstein wrote an article for the July 18, 2010 *New York Times Magazine*, titled “The Long Payback,” in which he discusses “deleveraging.” For a number of years, households were “leveraging” their incomes (and banks enabled them by giving them credit) to buy houses, cars, Sub-Zero refrigerators, etc. Then the bubble burst. To get their debt-to-income ratios back to “normal” or to their comfort levels, many households have been choosing to save or reduce their debts rather than spend. Other households are spending less from necessity. Jobs have been lost, hours cut, salaries decreased, or involuntary furloughs have been imposed.

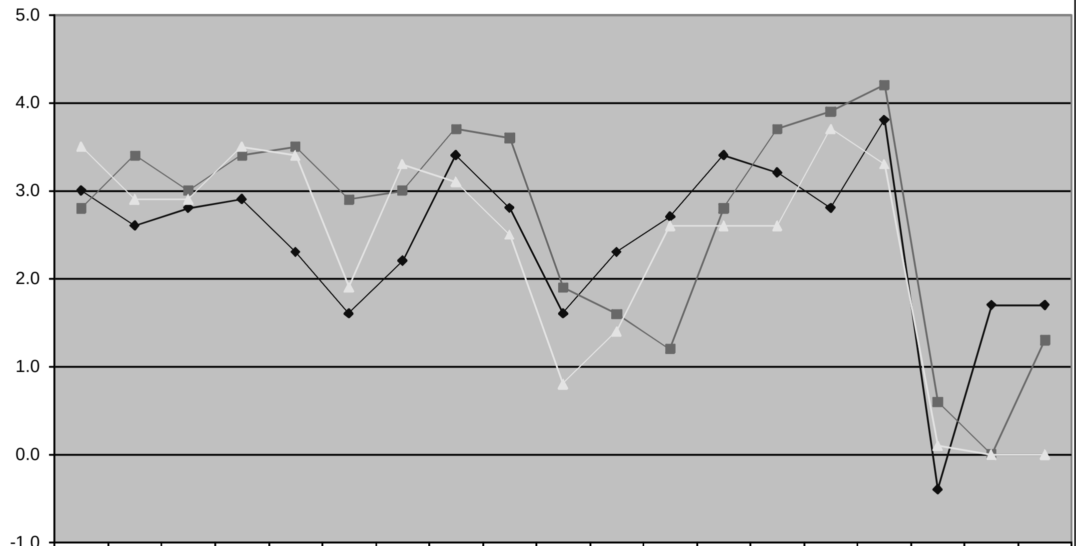
Some banks are choosing to sit on cash rather than lending for business investment. Other banks may be more interested in lending, but say that businesses are not interested in borrowing, even at today’s low interest rates.

What this all means is that demand for new goods and services – economic growth – is not going to be coming from increased consumption or investment in the near future. And, the stimulus to demand from the government spending package is ending at the same time as the administration is having problems getting unemployment benefits extended.

With the economic recovery not going anywhere (or at least not very far very soon), prices are not going anywhere either and that is good news for those worried about possible inflation, but not so good news for those worried about deflation. Because the rate of inflation has been so low (even negative) and interest rates have been so low, the Federal Reserve has no room to lower interest rates to stimulate the economy.

Lowenstein argues that the economy will not pick up until deleveraging ends and that will probably not happen soon. In the meantime, it appears that inflation rates will stay low.

CPI-U - % Change Calendar Years 1993-2011

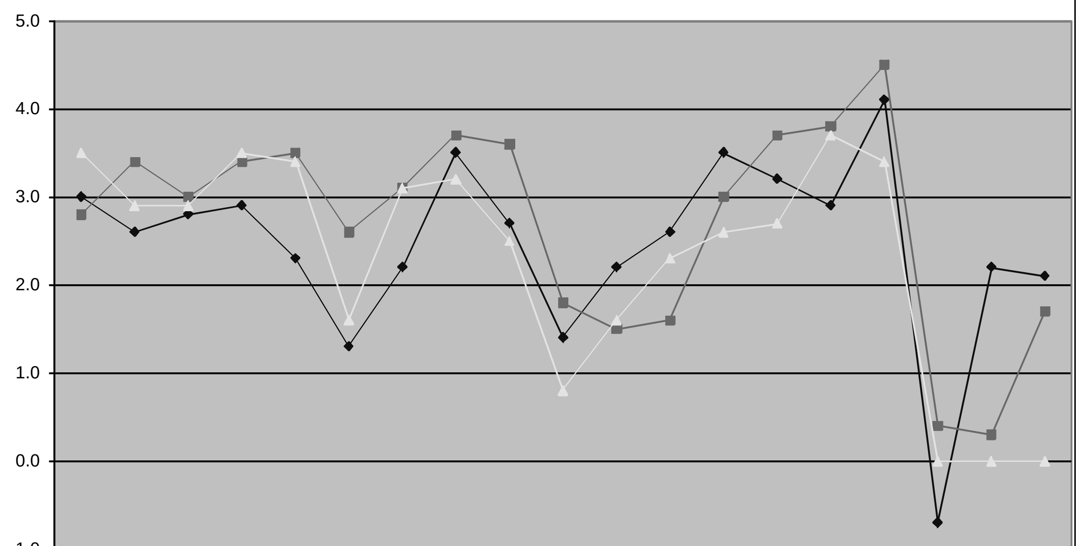


	93	94	95	96	97	98	99	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
U.S.	3.0	2.6	2.8	2.9	2.3	1.6	2.2	3.4	2.8	1.6	2.3	2.7	3.4	3.2	2.8	3.8	-0.4	1.7	1.7
Seattle	2.8	3.4	3.0	3.4	3.5	2.9	3.0	3.7	3.6	1.9	1.6	1.2	2.8	3.7	3.9	4.2	0.6	0.0	1.3
Portland	3.5	2.9	2.9	3.5	3.4	1.9	3.3	3.1	2.5	0.8	1.4	2.6	2.6	2.6	3.7	3.3	0.1	NA	NA

U.S. Seattle Portland

Figures for 2010-2011 are estimates.

CPI-W - % Change Calendar Years 1993-2011



	93	94	95	96	97	98	99	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
U.S.	3.0	2.6	2.8	2.9	2.3	1.3	2.2	3.5	2.7	1.4	2.2	2.6	3.5	3.2	2.9	4.1	-0.7	2.2	2.1
Seattle	2.8	3.4	3.0	3.4	3.5	2.6	3.1	3.7	3.6	1.8	1.5	1.6	3.0	3.7	3.8	4.5	0.4	0.3	1.7
Portland	3.5	2.9	2.9	3.5	3.4	1.6	3.1	3.2	2.5	0.8	1.6	2.3	2.6	2.7	3.7	3.4	0.0	NA	NA

U.S. Seattle Portland

Figures for 2010-2011 are estimates.

Table 1
Consumer Price Index
2000 to Present

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
2000	January			168.8 (2.7%)			165.6 (2.9%)
	February	176.1 (3.2)		169.8 (3.2)	171.6 (3.4)		166.5 (3.4)
	March			171.2 (3.8)			167.9 (4.0)
	April	177.7 (3.2)		171.3 (3.0)	173.3 (3.2)		168.0 (3.3)
	May			171.5 (3.2)			168.2 (3.3)
	June	179.2 (3.8)		172.4 (3.7)	174.5 (3.9)		169.2 (3.9)
First half '00		177.3 (3.3)	176.4 (3.3)		172.8 (3.5)	171.8 (3.4)	
	July			172.8 (3.7)			169.4 (3.9)
	August	180.3 (4.0)		172.8 (3.4)	175.4 (3.9)		169.3 (3.4)
	September			173.7 (3.5)			170.4 (3.5)
	October	182.1 (4.2)		174.0 (3.4)	177.5 (4.3)		170.6 (3.4)
	November			174.1 (3.4)			170.9 (3.5)
	December	181.5 (4.1)		174.0 (3.4)	177.0 (4.1)		170.7 (3.4)
Second half '00		181.1 (4.1)	179.5 (2.9)		176.4 (4.1)	174.6 (2.9)	
ANNUAL AVE.		179.2 (3.7)	178.0 (3.1)	172.2 (3.4)	174.6 (3.7)	173.2 (3.2)	168.9 (3.5)
2001	January			175.1 (3.7%)			171.7 (3.7%)
	February	184.0 (4.5)		175.8 (3.5)	179.2 (4.4)		172.4 (3.5)
	March			176.2 (2.9)			172.6 (2.8)
	April	184.2 (3.6)		176.9 (3.3)	179.4 (3.5)		173.5 (3.3)
	May			177.7 (3.6)			174.4 (3.7)
	June	186.3 (4.0)		178.0 (3.2)	181.3 (3.9)		174.6 (3.2)
First half '01		184.4 (4.0)	181.2 (2.7)		179.6 (3.9)	176.4 (2.7)	
	July			177.5 (2.7)			173.8 (2.6)
	August	186.8 (3.6)		177.5 (2.7)	181.5 (3.5)		173.8 (2.7)
	September			178.3 (2.6)			174.8 (2.6)
	October	187.9 (3.2)		177.7 (2.1)	183.1 (3.2)		174.0 (2.0)
	November			177.4 (1.9)			173.7 (1.6)
	December	186.1 (2.5)		176.7 (1.6)	181.1 (2.3)		172.9 (1.3)
Second half '01		186.9 (3.2)	183.6 (2.3)		181.9 (3.1)	178.5 (2.2)	
ANNUAL AVE.		185.7 (3.6)	182.4 (2.5)	177.1 (2.8)	180.8 (3.6)	177.5 (2.5)	173.5 (2.7)
2002	January			177.1 (1.1%)			173.2 (0.9%)
	February	187.6 (2.0)		177.8 (1.1)	182.5 (1.8)		173.7 (0.8)
	March			178.8 (1.5)			174.7 (1.2)
	April	188.8 (2.5)		179.8 (1.6)	183.6 (2.3)		175.8 (1.3)
	May			179.8 (1.2)			175.8 (0.8)
	June	189.4 (1.7)		179.9 (1.1)	184.1 (1.5)		175.9 (0.7)
First half '02		188.3 (2.1)	183.5 (1.3)		183.1 (1.9)	178.7 (1.3)	
	July			180.1 (1.5)			176.1 (1.3)
	August	190.3 (1.9)		180.7 (1.8)	184.8 (1.8)		176.6 (1.6)
	September			181.0 (1.5)			177.0 (1.3)
	October	190.9 (1.6)		181.3 (2.0)	185.5 (1.3)		177.3 (1.9)
	November			181.3 (2.2)			177.4 (2.1)
	December	190.0 (2.1)		180.9 (2.4)	184.6 (1.9)		177.0 (2.4)
Second half '02		190.3 (1.8)	184.0 (0.2)		184.9 (1.6)	179.3 (0.4)	
ANNUAL AVE.		189.3 (1.9)	183.8 (0.8)	179.9 (1.6)	184.0 (1.8)	179.0 (0.8)	175.9 (1.4)
2003	January			181.7 (2.6%)			177.7 (2.6%)
	February	191.3 (2.0)		183.1 (3.0)	186.2 (2.0)		179.2 (3.2)
	March			184.2 (3.0)			180.3 (3.2)
	April	192.3 (1.9)		183.8 (2.2)	187.0 (1.9)		179.8 (2.3)
	May			183.5 (2.1)			179.4 (2.0)
	June	191.7 (1.2)		183.7 (2.1)	185.7 (0.9)		179.6 (2.1)
First half '03		191.6 (1.8)	186.0 (1.4)		186.2 (1.7)	181.7 (1.7)	
	July			183.9 (2.1)			179.6 (2.0)
	August	194.4 (2.2)		184.6 (2.2)	188.2 (1.8)		180.3 (2.1)

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
	September			185.2 (2.3)			181.0 (2.3)
	October	193.7 (1.5)		185.0 (2.0)	187.8 (1.2)		180.7 (1.9)
	November			184.5 (1.8)			180.2 (1.6)
	December	191.0 (0.5)		184.3 (1.9)	185.3 (0.4)		179.9 (1.6)
Second half '03		193.1 (1.5)	186.5 (1.4)		187.1(1.2)	182.0 (1.5)	
ANNUAL AVE.		192.3 (1.6)	186.3 (1.4)	184.0 (2.3)	186.7 (1.5)	181.8 (1.6)	179.8 (2.2)
2004	January			185.2 (1.9%)			180.9 (1.8%)
	February	193.5 (1.2)		186.2 (1.7)	187.8 (0.9)		181.9 (1.5)
	March			187.4 (1.7)			182.9 (1.4)
	April	194.3 (1.0)		188.0 (2.3)	189.1 (1.1)		183.5 (2.1)
	May			189.1 (3.1)			184.7 (3.0)
	June	195.3 (1.9)		189.7 (3.3)	190.4 (2.5)		185.3 (3.2)
First half '04		194.0 (1.3)	189.8 (2.0)		188.7 (1.3)	184.9 (1.8)	
	July			189.4 (3.0)			184.9 (3.0)
	August	194.6 (0.1)		189.5 (2.7)	189.6 (0.7)		185.0 (2.6)
	September			189.9 (2.5)			185.4 (2.4)
	October	196.5 (1.4)		190.9 (3.2)	191.6 (2.0)		186.5 (3.2)
	November			191.0 (3.5)			186.8 (3.7)
	December	195.1 (2.1)		190.3 (3.3)	190.3 (2.7)		186.0 (3.4)
Second half '04		195.4 (1.2)	192.5 (3.2)		190.5 (1.8)	187.0 (2.7)	
ANNUAL AVE.		194.7 (1.2)	191.1 (2.6)	188.9 (2.7)	189.6 (1.6)	185.9 (2.3)	184.5 (2.6)
2005	January			190.7 (3.0%)			186.3 (3.0%)
	February	197.6 (2.1)		191.8 (3.0)	192.4 (2.4)		187.3 (3.0)
	March			193.3 (3.1)			188.6 (3.1)
	April	201.3 (3.6)		194.6 (3.5)	196.2 (3.8)		190.2 (3.7)
	May			194.4 (2.8)			190.0 (2.9)
	June	199.8 (2.3)		194.5 (2.5)	194.8 (2.3)		190.1 (2.6)
First half '05		199.2 (2.7)	194.5 (2.5)		194.1 (2.9)	189.4 (2.4)	
	July			195.4 (3.2)			191.0 (3.3)
	August	199.9 (2.7)		196.4 (3.6)	195.3 (3.0)		192.1 (3.8)
	September			198.8 (4.7)			195.0 (5.2)
	October	203.3 (3.5)		199.2 (4.3)	198.6 (3.7)		195.2 (4.7)
	November			197.6 (3.5)			193.4 (3.5)
	December	200.9 (3.0)		196.8 (3.4)	196.1 (3.0)		192.5 (3.5)
Second half '05		201.3 (3.0)	197.5 (2.6)		196.5 (3.1)	192.2 (2.8)	
ANNUAL AVE.		200.2 (2.8)	196.0 (2.6)	195.3 (3.4)	195.3 (3.0)	190.8 (2.6)	191.0 (3.5)
2006	January			198.3 (4.0%)			194.0 (4.1%)
	February	203.6 (3.0)		198.7 (3.6)	198.0 (2.9)		194.2 (3.7)
	March			199.8 (3.4)			195.3 (3.6)
	April	207.4 (3.0)		201.5 (3.5)	202.5 (3.2)		197.2 (3.7)
	May			202.5 (4.2)			198.2 (4.3)
	June	208.2 (4.2)		202.9 (4.3)	203.8 (4.6)		198.6 (4.5)
First half '06		205.8 (3.3)	199.8 (2.7)		200.8 (3.5)	194.7 (2.8)	
	July			203.5 (4.1)			199.2 (4.3)
	August	209.6 (4.9)		203.9 (3.8)	205.1 (5.0)		199.6 (3.9)
	September			202.9 (2.1)			198.4 (1.7)
	October	209.8 (3.2)		201.8 (1.3)	203.9 (2.7)		197.0 (0.9)
	November			201.5 (2.0)			196.8 (1.8)
	December	209.3 (4.2)		201.8 (2.5)	204.3 (4.2)		197.2 (2.4)
Second half '06		209.5 (4.1)	202.5 (2.5)		204.4 (4.0)	197.3 (2.7)	
ANNUAL AVE.		207.6 (3.7)	201.1 (2.6)	201.6 (3.2)	202.6 (3.7)	196.0 (2.7)	197.1 (3.2)
2007	January			202.416 (2.1%)			197.559 (1.8%)
	February	211.704 (4.0)		203.499 (2.4)	205.746 (3.9)		198.544 (2.2)
	March			205.352 (2.8)			200.612 (2.7)
	April	215.767 (4.0)		206.686 (2.6)	210.388 (3.9)		202.130 (2.5)
	May			207.949 (2.7)			203.661 (2.8)
	June	215.510 (3.5)		208.352 (2.7)	210.550(3.3)		203.906 (2.7)
First half '07		213.810 (3.9)	206.653 (3.4)		208.373 (3.8)	201.217 (2.8)	
	July			208.299 (2.4)			203.700 (2.3)
	August	215.978 (3.0)		207.917 (2.0)	210.220 (2.5)		203.199 (1.8)

		All Urban Consumers (CPI-U)			Urban Wage Earners & Clerical Workers (CPI-W)		
Year	Month	Seattle	Portland	U.S.	Seattle	Portland	U.S.
	September			208.490 (2.8)			203.889 (2.8)
	October	218.427 (4.1)		208.936 (3.5)	213.107 (4.5)		204.338 (3.7)
	November			210.177 (4.3)			205.891 (4.6)
	December	218.966 (4.6)		210.036 (4.1)	214.024 (4.8)		205.777 (4.3)
Second half '07		217.502 (3.8)	210.460 (3.9)	208.976 (3.1)	212.160 (3.8)	204.801 (3.8)	204.466 (3.3)
ANNUAL AVE.		215.656 (3.9)	208.556 (3.7)	207.342 (2.8)	210.266 (3.8)	203.009 (3.6)	202.767 (2.9)
2008	January			211.080 (4.3%)			206.744 (4.6%)
	February	221.728 (4.7)		211.693 (4.0)	216.332 (5.1)		207.254 (4.4)
	March			213.528 (4.0)			209.147 (4.3)
	April	223.196 (3.4)		214.823 (3.9)	218.483 (3.8)		210.698 (4.2)
	May			216.632 (4.2)			212.788 (4.5)
	June	228.068 (5.8)		218.815 (5.0)	223.573 (6.2)		215.223 (5.6)
First half '08		223.569 (4.6)	214.619 (3.9)	214.429 (4.2)	218.664 (4.9)	209.456 (4.1)	210.309 (4.6)
	July			219.964 (5.6)			216.304 (6.2)
	August	227.745 (5.4)		219.086 (5.4)	223.273 (6.2)		215.247 (5.9)
	September			218.783 (4.9)			214.935 (5.4)
	October	225.915 (3.4)		216.573 (3.7)	220.687 (3.6)		212.182 (3.8)
	November			212.425 (1.1)			207.296 (0.7)
	December	222.580 (1.7)		210.228 (0.1)	216.424 (1.1)		204.813 (-0.5)
Second half '08		225.869 (3.8)	216.159 (2.7)	216.177 (3.4)	220.721 (4.0)	210.557 (2.8)	211.796 (3.6)
ANNUAL AVE.		224.719 (4.2)	215.389 (3.3)	215.303 (3.8)	219.692 (4.5)	210.006 (3.4)	211.053 (4.1)
2009	January			211.143 (0.0%)			205.700 (-0.5%)
	February	224.737 (1.4)		212.193 (0.2)	218.752 (1.1)		206.708 (-0.3)
	March			212.709 (-0.4)			207.218 (-0.9)
	April	225.918 (1.2)		213.240 (-0.7)	220.208 (0.8)		207.925 (-1.3)
	May			213.856 (-1.3)			208.774 (-1.9)
	June	227.257 (-0.4)		215.693 (-1.4)	221.993 (-0.7)		210.972 (-2.0)
First half '09		225.580 (0.9)	214.102 (-0.2)	213.139 (-0.6)	219.853 (0.5)	207.898 (-0.7)	207.883 (-1.2)
	July			215.351 (-2.1)			210.526 (-2.7)
	August	227.138 (-0.3)		215.834 (-1.5)	221.873 (-0.6)		211.156 (-1.9)
	September			215.969 (-1.3)			211.322 (-1.7)
	October	226.277 (0.2)		216.177 (-0.2)	221.339 (0.3)		211.549 (-0.3)
	November			216.330 (1.8)			212.003 (2.3)
	December	225.596 (1.4)		215.949 (2.7)	220.905 (2.1)		211.703 (3.4)
Second half '09		226.475 (0.3)	217.191 (0.5)	215.935 (-0.1)	221.463 (0.3)	211.950 (0.7)	211.377 (-0.2)
ANNUAL AVE.		226.028 (0.6)	215.647 (0.1)	214.537 (-0.4)	220.658 (0.4)	209.924 (0.0)	209.630 (-0.7)
2010	January			216.687 (2.6%)			212.568 (3.3%)
	February	226.085 (0.6)		216.741 (2.1)	221.215 (1.1)		212.544 (2.8)
	March			217.631 (2.3)			213.525 (3.0)
	April	226.513 (0.3)		218.009 (2.2)	222.309 (1.0)		213.958 (2.9)
	May			218.178 (2.0)			214.124 (2.6)
	June	226.118 (-0.5)		217.965 (1.1)	221.857 (-0.1)		213.839 (1.4)

Implicit Price Deflator for Personal Consumption Expenditures

Monthly Index and Cumulative Percentage Change from July 2009 - Base Year 2005

	Jul 09	Aug	Sep	Oct	Nov	Dec	Jan 10	Feb	Mar	Apr	May
Orig. Index	109.239	109.598	109.704	109.997	110.205	110.377	110.573	110.588	110.719	110.740	110.701
Cum. % Change		0.329	0.426	0.694	0.884	1.042	1.221	1.235	1.355	1.374	1.338
IPD % Proj.		3.944	2.554	2.776	2.653	2.500	2.442	2.117	2.032	1.832	1.606
Prev. 12 Mo. % Change		-0.587	-0.611	0.122	1.453	2.125	2.122	1.835	2.056	1.994	1.891

Source: Survey of Current Business, Table B.1 - The Disposition of Personal Income, and/or BEA news releases.

The top row represents the preliminary and revised implicit price deflator indices for personal consumption expenditures (IPD) published by the Bureau of Economic Analysis (BEA). (Every month from August to May, the BEA goes back and revises the data for the last three to six months.) The second row represents the cumulative percentage change in the preliminary or revised index from July of 2009. The third row represents the projections of the annual IPD since July of 2009 when using the methodology of dividing the cumulative percentage change since July by the number of months since July and then multiplying the dividend by 12 to obtain an annual estimate. The fourth row represents the actual percentage change over the last 12 months.

BEA Revisions and Our Forecast

Every June, the BEA does an annual revision of the data for the last three years. This means that the 12-month change in the July index – the one that sets the “inflation rate” for property tax increases – may be quite a bit different from the rate we have been seeing so far this year. It all depends on how much they “tweak” the data.

As you can see in the above table, our “forecasts” range from an increase of 1.338 percent to 1.891 percent. The final number will probably be somewhere in that range. ***It will certainly be above one percent.***

We will publish the annual inflation factor in our Focus section of the MRSC Web site as soon as we can get the information from the BEA sometime in mid-September.

In the meantime, you can track the progress of the IPD on our Web site at http://www.mrsc.org/Subjects/Finance/ipdcht.aspx

Revenue Forecasts

Population Forecast

The official April 1, 2010 city population to be used for distributions in 2011 is 4,196,962. This is almost two percent more than the population estimate for April 1, 2009. Almost half of this increase was from annexations, with the rest coming from secular growth and military adjustments. As we have in past years, we have adjusted the April 1 numbers upward for annexations that we know were completed after the April 1, 2010 estimates were made or that are in the pipeline for later this year. Cities that annex qualify for state-shared revenue distributions on their new population base, starting the first day of the quarter after the effective date of the annexation.

The April 1, 2010 annexation in Burien (14,292) and the July 1, 2010 annexation in Kent (24,000) are not in the 2010 population number given above. Last year, Kirkland voted to annex an area with an estimated population of 37,000. The effective date is scheduled to be June 1, 2011. In addition, Renton is having an election on November 2, 2010 for the annexation of the Fairwood-Petrovitsky area, with a population of approximately 27,000. If successful, the estimated date of the annexation is July 1, 2011. We have weighted these populations by the number of 2011 quarterly state-shared revenue distributions for which we think they would qualify. For our per capita revenue forecasts in 2011, we will be using an adjusted, weighted, population estimate of 4,251,254. This is 1.3 percent higher than if there were no annexations.

The official April 1, 2010 county population is 2,536,288. This is a decrease of 0.6 percent from 2009. We have used this number, unadjusted, in making the county forecasts for liquor board profits and the liquor excise tax.

Motor Vehicle Fuel Taxes

Editor's Note: Fanny N. Roberts, the Transportation Economist for the Financial Planning and Economic Analysis Division of the Department of Transportation, provided the forecasts for the tables.

City and county gasoline and diesel fuel tax receipts for 2009 were 1.8 percent less than forecast in *Budget Suggestions for 2010*. The revised forecast for 2010 is approximately five percent less than that made a year ago. The primary reason is that gasoline prices are five percent and diesel fuel prices are seven percent higher than when the forecast was made last year. (The forecast for Washington personal income has remained much the same.) These higher prices have led to decreased sales of fuel. Consumption of gasoline is 3.5 percent less than forecast last year for 2010; consumption of diesel fuel is down five percent from the forecast.

In 2011, gasoline and diesel fuel prices are expected to increase by 6.7 and 8.7 percent, respectively. Countering the negative effect of these higher prices on the growth of fuel sales (and, correspondingly, fuel taxes) will be an estimated 4.1 percent growth in personal income. Motor vehicle fuel taxes are expected to increase by a modest 1.6 percent.

The county distribution formula includes annual road costs and "need" in addition to population. The county estimates, based on these factors, are done by the County Road Administration Board (CRAB). The county allocation percentages for 2011 will be released after the board meets in late July. We will provide this information on our Focus page at www.mrsc.org when it is available. Counties will also be notified directly by CRAB.

The city forecasts for total dollars and per capita amounts are in Tables 3 and 4.

Liquor Revenues

Editor's Note: Our liquor revenue forecasts come from the Washington State Liquor Control Board.

The price for liquor in the State of Washington is comprised of several components. The main component is the standard cost of goods sold, which includes the cost from the manufacturers and the delivery price of the alcohol. Federal and state taxes are then applied to the cost, as well as a mark-up for Liquor Control Board costs and surcharges imposed by the Liquor Control Board. The taxes are distributed according to ch. 82.08 RCW and surcharges are distributed according to Liquor Control Board policy.

Liquor Board Profits. Liquor board profits are the difference between the revenue from alcohol sales and the expenditures of the Liquor Control Board. The Liquor Control Board forecasts these profits through their Revenue Forecast Model that provides information to the Washington State Legislature and the Economic and Revenue Forecast Council.

The 2009 actual net distribution of Liquor Board profits to cities and counties increased by 3.2 percent compared to 2008. The liquor profits forecasts for 2010 and 2011 include $18.7 million that the 2009 legislature appropriated for cities and counties from a new markup on liquor sales for the 2009-2011 biennium. The intention had been to distribute these funds equally in each of the eight quarters of the biennium. However, the December 2009 payment was deferred until 2010, which makes the growth rate between the 2010 forecast and 2009 actuals larger than it otherwise would be. Similarly, the decrease shown between the 2010 and 2011 forecasts is larger than it otherwise would be.

Liquor taxes. Liquor taxes distributed in 2009 increased 3.1 percent compared to 2008. For 2010 and 2011, the forecast increase is 3.2 percent in each year.

City forecasts are in Tables 3 and 4; county forecasts are in Tables 5 and 6. These estimates do not include any impacts from Initiatives 1100 or 1105. See pages 50-52 for a discussion of these initiatives.

City-County Assistance

Background

ESSB 6050, ch. 450, Laws of 2005, established the city-county assistance account in RCW 43.08.290, which receives 1.6 percent of the state real estate excise tax. This account provides funding for assistance for certain cities and counties according to the formulas set out below. These jurisdictions lost funding when the motor vehicle excise tax (MVET) was repealed in 2000.

Counties. Counties with an unincorporated population of more than 100,000, qualify to receive the amount necessary to increase the sum of the revenues received under RCW 82.14.030(1) (the first half-cent of the sales and use tax) and streamlined sales tax mitigation funds received to the greater of: 1) $250,000 (to be increased each year by the increase in the July implicit price deflator for personal consumption expenditures); or 2) an amount equal to 65 percent of the state-wide per capita average collected from the first half-cent of the sales and use tax with respect to taxable activity in the unincorporated areas of all counties in the previous fiscal year.

Counties with an unincorporated population of less than 100,000 qualify to receive the amount necessary to increase the sum of the revenues received under RCW 82.14.030(1) (the first half-cent of the sales and use tax) and streamlined sales tax mitigation funds received to the greater of: 1) $250,000 (to be increased each year by the increase in the July implicit price deflator for personal consumption expenditures); or 2) an amount equal to 70 percent of the state-wide per capita average received from the first half-cent of the sales and use tax with respect to taxable activity in the unincorporated areas of all counties in the previous fiscal year.

In counties with an unincorporated population of 15,000 or less, the county will be certified for the greater of: 1) the amount under the terms in the paragraph above for counties with a population under 100,000; or 2) the amount the county received in “backfill” for FY 2005 under section 716, ch. 276, Laws of 2004 (amended state budget).

If there are not enough revenues to fund the distributions above, then they will each be reduced proportionately. If there are more revenues than necessary to fund the above distributions, they shall be distributed proportionately on the basis of the unincorporated population among those counties that have qualified for city-county assistance funding and impose the full second half cent of the sales and use tax under RCW 82.14.030(2).

Cities. The formula used to allocate city funding is based on a sales tax and property tax equalization formula, and the 2005 MVET backfill levels. The sales tax and property tax equalization components of the formula are similar to the former sales tax equalization program that was funded with MVET.

Cities with a population of 5,000 or less qualify to receive distributions equal to the greater of: 1) 55 percent sales tax equalization on the sum of the first half-cent of the sales and use tax received under RCW 82.14.030(1) and streamlined sales tax mitigation funds for the previous fiscal year; 2) 55 percent property tax equalization based on per capita assessed values per $1,000 assessed value; or 3) their 2005 MVET backfill allocation. However, cities with twice the statewide per capita assessed value are not eligible for funding.

Cities with populations over 5,000 qualify to receive distributions equal to the greater of: 1) 50 percent sales tax equalization on the sum of the first half-cent of the sales and use tax received under RCW 82.14.030(1) and streamlined sales tax mitigation funds for the previous fiscal year; or 2) 55 percent property tax equalization based on per capita assessed values per $1,000 assessed value. These cities do not qualify for funding if their assessed value per capita is above the statewide average (compared to twice the statewide average for smaller cities).

Distributions for all cities are capped at $100,000, to be increased each year by the increase in the July implicit price deflator for personal consumption expenditures. (The 2010 cap is $112,198.) And, new cities that incorporate after August 1, 2005 are not eligible for funding.

If there are not enough revenues to fund the distributions above, then they will each be reduced proportionately. If there are more revenues than necessary to fund the above distributions, they are to be distributed proportionately on the basis of population among those cities that have qualified for city-county assistance and impose the full second half cent of the sales and use tax under RCW 82.14.030(2).

Certification and distribution dates. Using the factors for cities and counties described above, the Department of Revenue (DOR) must certify the amounts to be distributed each year by October 1, with preliminary estimates available by September 1.

Funds are distributed quarterly on January 1, April 1, July 1, and October 1. In order for the funds to be distributed on those dates, the transfers must be made in the previous month. The cash payments, therefore, come in December of the year in which the certification is made, then in March, June, and September of the coming year. This means that, for budgeting purposes, cities and counties are dealing with two different certification years. Here is how it works.

When you pass your budget for 2011 this coming November or December, you will know the amount for which you are certified for 2011, but the first payment from that certification will arrive this December and is part of the current year's (2010) budget receipts. The amount you budget for 2011 will depend on your estimates of how much you will receive in March, June, and September 2011 based on your October 1, 2010 certification, plus your "guesstimate" of what you will receive in December 2011, which will depend on your certification on October 1, 2011. Table 2 shows the various payments and their timing.

City-County Assistance Distributions			
	Statutory Date for Distribution	Actual Payment Date	Certification Date
2010 Budget			
Payment 1	April 1, 2010	Late March 2010	October 1, 2009
Payment 2	July 1, 2010	Late June 2010	October 1, 2009
Payment 3	October 1, 2010	Late September 2010	October 1, 2009
Payment 4	January 1, 2011	Late December 2010	October 1, 2010
2011 Budget			
Payment 1	April 1, 2011	Late March 2011	October 1, 2010
Payment 2	July 1, 2011	Late June 2011	October 1, 2010
Payment 3	October 1, 2011	Late September 2011	October 1, 2010
Payment 4	January 1, 2012	Late December 2011	October 1, 2011

Table 2

Forecasts

After two good years for city-county assistance receipts in 2006 and 2007, revenues decreased in 2008 as the housing market took a beating. State real estate excise taxes, the funding source, fell and cities and counties each received $5.06 million compared to $7.6 million the year before – a decrease of a third. This was enough to fully fund the counties at the amounts for which they were certified, but cities received only 65 percent of their certification amounts.

In 2009, receipts of real estate excise tax receipts fell to $3.04 million, another big decrease – this time, 40 percent. Luckily, section 805 of the 2009-2011 operating budget contained a transfer from the Public Works Assistance Account of $2.5 million to both cities and counties on July 1 of 2009 and 2010, to be paid out in the September/October distribution. With the total distributions in 2009 to both cities and counties of $5.54 million, counties were fully funded while cities received 67 percent of their 2009 certified amounts – just about what we had forecast.

2010 Update. The total certification amounts for cities for **2010** is $ 8.53 million. For counties, the amount is $3.90 million. Of this amount, both cities and counties have already received $1.50 million in the first two payments (made in March and June) for 2010. According to the June 2010 forecast of real estate excise tax receipts, cities and counties are each currently expected to receive $0.94 million from the real estate excise tax in the October distribution, which is paid out in September. That payment will also include $2.5 million for both cities and counties from the transfer the legislature made in the 2009-2011 operating budget. The total estimated distribution for September/October 2010 is $3.44 million. This is more than enough to fully fund the counties for the amount for which they are certified in 2010, so they really do not need to do any further calculations. If they currently levy the full second half cent of the sales tax, they will get a share of the excess amount in the county "pot" at the end of the year.

Cities need to check out the Web page http://gis.dor.wa.gov/content/doingbusiness/6050distributions.aspx. Click on “2010 City and County Distributions.” This spreadsheet shows the amount for which each city is certified for 2010 (look at the column in green, titled “ESSB 6050 Amount”). It also shows how much each city has received so far in the first two distributions for the 2010 budget (the “April 2010 Distribution” received in March and the “July 2010 Distribution” received in June) and the amount they are expected to receive in the October distribution (to be received in September). Pay no attention to the last column titled “Total.” For revising your 2010 revenue estimates, this is a meaningless number, since the cash from the “January 2010 Distribution” has already been counted as part of your actual revenues for 2009.

The last cash payment for calendar year 2010 will come in December and it will be the “January 2011 Distribution” from the new certification for 2011 that will be made by October 1, 2010, with preliminary estimates available sometime in September. It will be posted at this same Web site, http://gis.dor.wa.gov/content/doingbusiness/6050distributions.aspx, and will be titled “2011 Recertification and Quarterly Distribution Estimates” or something close to that. (Yes, this information on “timing” **is** confusing. Maybe it is time to take another look at Table 2 above, which shows the timing of the payments and the statutory distributions.) Right now, the folks at the Economic and Revenue Forecast Council are estimating that the January 2011 distribution (December 2010 payment) will be $1.0 million. That would make the total for the four payments for the 2010 budget year $5.94 million. Therefore, we are forecasting that cities will get approximately 70 percent of their certification amounts for 2010.

2011. When the preliminary certification for 2011 is posted on this Web site, http://gis.dor.wa.gov/content/doingbusiness/6050distributions.aspx, sometime in the latter part of September, counties need only take their total certification amount and put it in their budget. (Note, as mentioned above, this spreadsheet should be titled “2011 Recertification and Quarterly Distribution Estimates,” maybe with the word “preliminary” included.) Cities will, once again, not get the total amount for which they are certified. Currently the estimate of the real estate excise tax revenue to be distributed next year to both cities and counties is $4.53 million. Alas, there is no extra $2.5 million addition to the “pots” as there was in 2009 and 2010! You can calculate what your city’s percentage share will be by taking the amount in the “ESSB 6050 Amount” column and dividing it by the city total at the bottom of the column. Multiply that “share” by $4.53 million to get your estimated dollar amount for 2011. This methodology assumes that your share of the last payment in 2011 (which will come from the October 1, 2011 certification for 2012) will be the same percentage amount as the first three payments. This is probably a pretty good assumption for most cities.

If you cannot wait until the release of the preliminary certification in September to make your budget estimate, then take your percentage share of the 2010 certification and multiply it by the estimated pot of city revenue for 2011, $4.53 million. For many cities, that will be a pretty good estimate.

Criminal Justice Revenues

With the repeal of the motor vehicle excise tax, the only money that cities receive by statute comes from language that says beginning July 1, 1999, a transfer would be made from the general fund to both city accounts under RCW 82.14.320 and RCW 82.14.330. Each transfer was appropriated originally at $4.6 million, to be increased each July by “the fiscal growth factor” in RCW 43.135.025, which is the average growth in state personal income for the prior ten fiscal years. (By 2009, the distribution had grown to over $6.2 million.)

Seventy percent of the revenue distributed under RCW 82.14.330 is handed out on a purely per capita basis. RCW 82.14.330(1)(b) distributes 16 percent of the pot on a per capita basis, with each city receiving a minimum of $1,000, no matter how small their population. RCW 82.14.330(2) was amended in 2003 to delete the language that allocated certain percentages to innovative law enforcement programs, domestic violence prevention programs, and child abuse prevention programs, with the requirement that the cities send in funding requests for each program to CTED. The funds for these three areas, totaling 54 percent of the pot, are now distributed by the Office of the State Treasurer on a strictly per capita basis. There is a requirement that these funds be spent on some combination of innovative law enforcement programs, domestic violence prevention programs, and child abuse prevention programs, but no requirement of how much must be spent in each area. All the money can be spent in one area if a city wishes. In Tables 3 and 4, we identity the 16 percent distribution as "Criminal Justice – Population," which is what the treasurer's office calls it. The 54 percent distribution is labeled "Criminal Justice Special Programs."

Ten percent of the revenues go to cities that contract for law enforcement services.

The remaining funds under RCW 82.14.330 and all the revenues under RCW 82.14.320 are handed out partially based on crime rates and we cannot forecast them. The cities that may qualify for these funds know who they are and are aware of the problems they have in estimating these revenues.

In spite of the passage of Initiative 695, counties are continuing to receive some state-shared criminal justice funding from the state general fund under the provisions of RCW 82.14.310. The initial appropriation, made for the state fiscal year 2000, was $23.2 million and grew to $31.4 million in 2009. It is increased every July by "the fiscal growth factor," which is the average growth in state personal income for the prior ten fiscal years. The county funding formula includes population, the crime rate of the county, and the annual number of criminal cases filed in superior court. Because revenues are not handed out on a strictly per capita basis, MRSC can provide no forecasts.

Fire Insurance Premium Tax

The state collects a two percent tax on the premiums of all insurance policies written. Twenty-five percent of the tax collected on fire policies and the fire component of homeowner's and commercial multi-peril policies, are distributed to cities and fire districts that have firemen's pension funds. Premiums attributed to losses from such things as burglaries, tornadoes, floods, etc., are not shared with cities. For the homeowner's and commercial multi-peril policies, actual data is collected on the loss experience due to fire as a percent of total losses. These percentages are then applied to the total premium taxes collected from these policies to get the taxes attributed to the fire component.

For the distribution in 2010, the premiums paid in for fire insurance were much higher than we expected. In addition, the "loss experience" from fire for the commercial multi-peril category was higher than we estimated and, therefore, the percentage amount of that category's premiums going into the pool to be distributed was higher than estimated. The result was that the "ratio value” (the total premium distribution divided by the number of paid firefighters) was $847 compared to the $812 we forecast.

For 2011 we are assuming cities and fire districts will not hire additional firefighters because of budget constraints. We also assume that premiums for homeowners and commercial multi-peril insurance increase by three percent and that the percent of losses due to fire will follow their historical norms. These assumptions produce a ratio value of $860.

We want to remind our readers, once again, that these forecasts are completely dependent on fire loss experience and insurance premiums and we really have no way to forecast either, although we do know that the latter are currently increasing.

Summary of Local Share of State-Shared Revenues Total Dollar Amounts – 2008 to 2011 *(All Cities and Towns)*				
	2008	**2009**	**2010 Revised**	**2011 Estimate**
Gas Tax	$91,818,025	$88,603,991	$89,707,000	$91,141,000
Profits of Liquor Board	27,090,572	28,014,708	34,072,000	31,200,000
Liquor Tax	19,301,609	19,902,527	20,551,000	21,161,000
Criminal Justice - Special Programs	3,189,853	3,353,503	3,393,000	3,434,000
Criminal Justice – Population-based	945,142	993,630	1,006,000	1,018,000
Total	$142,354,201	$140,868,359	$148,729,000	$147,954,000

Table 3

Per Capita Amounts – 2005 to 2011 *(All Cities and Towns)*							
	2005	**2006**	**2007**	**2008**	**2009**	**2010 Rev.**	**2011 Est.**
Gas Tax	$21.33	$23.20	$24.19	$22.82	$21.72	$21.61	$21.44
Profits of Liquor Board	7.07	6.46	7.33	6.73	6.87	8.21	7.34
Liquor Tax	4.09	4.28	4.55	4.80	4.88	4.95	4.98
Criminal Justice - Special Programs	0.74	0.75	0.77	0.79	0.82	0.82	0.81
Criminal Justice – Population-based	0.22	0.22	0.24	0.23	0.24	0.24	0.24
Total	$33.45	$34.91	$37.08	$35.37	$34.53	$35.83	$34.81

Table 4

Summary of Local Share of State-Shared Revenues Total Dollar Amounts – 2008 to 2011 *(All Counties)*				
	2008	**2009**	**2010 Revised**	**2011 Estimate**
Profits of Liquor Board	$7,329,892	$7,564,488	$9,082,000	$8,364,000
Liquor Excise Tax	4,401,902	4,528,882	4,668,000	4,820,000
Total	$11,731,794	$12,093,370	$13,750,000	$13,184,000

Table 5

Per Capita Amounts – 2004 to 2011 *(All Counties)*								
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010 Rev.**	**2011 Est.**
Profits of Liquor Board	$3.03	$2.95	$2.72	$3.07	$2.90	$2.96	$3.56	$3.30
Liquor Excise Tax	1.35	1.43	1.50	1.61	1.74	1.77	1.83	1.90
Total	$4.38	$4.38	$4.22	$4.68	$4.64	$4.73	$5.39	$5.20

Table 6

Distribution of Fire Insurance Premium Tax – RCW 41.16.050 *May 2010*			
City/District	**Ratio Value**	**Number of Paid Firefighters as of January 1, 2010**	**Amount[1]**
Aberdeen	$847.26	35	$29,654.21
Anacortes		21	17,792.53
Auburn		75	63,544.74
Bellevue		212	179,619.79
Bellingham		141	119,464.11
Bothell		56	47,446.74
Bremerton		56	47,446.74
Camas		43	36,432.32
Centralia		21	17,792.53
Chehalis		15	12,708.95
Edmonds		53	44,904.95
Ellensburg		28	23,723.37
Everett		177	149,965.58
Hoquiam		24	20,334.32
Kelso		12	10,167.16
Kennewick		76	64,392.00
Kent		173	146,576.53
Kirkland		88	74,559.16
Longview		45	38,126.84
Lynnwood		55	46,599.47
Mercer Island		30	25,417.90
Moses Lake		31	26,265.16
Mount Vernon		35	29,654.21
Olympia		79	66,933.79
Pasco		49	41,515.90
Port Angeles		22	18,639.79
Port Townsend		5	4,236.32
Pullman		31	26,265.16

Distribution of Fire Insurance Premium Tax – RCW 41.16.050 ***May 2010***			
City/District	**Ratio Value**	**Number of Paid Firefighters as of January 1, 2010**	**Amount[1]**
Puyallup		57	48,294.00
Raymond		13	11,014.42
Redmond		158	133,867.58
Renton		133	112,686.00
Richland		55	46,599.47
Seattle		1,023	866,750.23
Shelton		6	5,083.58
Spokane		277	234,691.90
Sumner		24	20,334.32
Sunnyside		15	12,708.95
Tacoma		389	329,585.38
Toppenish		7	5,930.84
Tukwila		59	49,988.53
Vancouver		189	160,132.74
Walla Walla		48	40,668.63
Wenatchee		33	27,959.68
Yakima		84	71,170.11
King County #10		128	108,449.69
King County #2		41	34,737.79
Spokane County #1		159	134,714.84
Totals		4,586	$3,885,548.95

[1]The amounts shown in the fourth column are the actual distributions by the state. However, if one multiplies the ratio value shown by the number of firefighters in each row, the results are slightly different from the actual amount shown. We have displayed the ratio value as rounded to two decimal places; the actual ratio value used by the state had nine decimal places.

Table 7

What's Ahead for Cities and Counties in 2012 (and Beyond)?

This is the section in which we report on the possibilities of incorporations and annexations that might result in significant changes in state-shared revenues for the year after next.

The passage of SSB 5321, ch. 550, Laws of 2009, changed the annexation landscape. This bill amended 2006 legislation dealing with credits against the state sales tax for certain cities doing annexations. It extended the time period in which credits are available from January 1, 2010 to January 1, 2015 and also made Seattle eligible. Because of the extension, cities do not seem to be in quite as much of a hurry to vote on annexation these days. And, if they do vote and the annexation is approved, cities are in less of a hurry than in the past to make the annexation effective.

Here is a listing of annexations that we have heard about:

- Bothell - King County (5,000; annexation by interlocal agreement, estimated to be effective January 1, 2012)
- Bothell - Snohomish County (22,000; November 2011 vote; estimated effective date of annexation, January 1, 2013)
- Seattle, North Highline (20,000; November 2011 vote; estimated date of annexation, no information)
- Lynnwood (27,000; November 2011 vote; estimated date of annexation, no information)
- Mukilteo (11,000; maybe vote in 2012)
- Renton - West Hill (14,608; maybe vote in 2012 for annexation in 2013)

Below you will find tables that show the forecasts of 2012 per capita revenues. For now we are assuming that only the small annexation in Bothell will affect state-shared revenues for 2012.

City Per Capita State-Shared Revenue Estimates – 2012	
Gas tax	$21.43
Liquor board profits	7.20
Liquor excise tax	5.06
Criminal Justice (former CTED programs)	0.81
Criminal Justice (population)	0.24
Total	$34.74

County Per Capita State-Shared Revenue Estimates – 2012	
Liquor board profits	$3.28
Liquor excise tax	1.93
Total	$5.24

GASB Statement No. 54

Editor's Note: The title of GASB Statement No. 54 is "Fund Balance Reporting and Governmental Fund Type Definitions." The first article reproduced below addresses fund balances; the second, special revenue funds.

According to the Washington State Auditor's Office, GASB Statement No. 54 will affect all jurisdictions that have special revenue funds, whether they account on a cash basis or according to Generally Accepted Accounting Principles. For most local governments, it becomes effective beginning with the fiscal year that ends December 31, 2011 – i.e., the coming budget year.

Fund Balance: New and Improved

by Stephen J. Gauthier, Director of the Government Finance Officers Association (GFOA) Technical Services Center

There is probably no single item in a typical state or local government's financial statements that attracts more attention than fund balance. In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This latest GASB standard will not affect the calculation of fund balance, but will fundamentally alter the various components used to report it.

BACKGROUND

Accountants use the term *fund balance* to describe the arithmetic difference between the assets and liabilities reported in a governmental fund (e.g., general fund). The categories currently used to present fund balance focus on whether resources are *available for appropriation* (i.e., budgeting). Thus, the traditional presentation of fund balance distinguishes *unreserved fund balance* (i.e., available for appropriation) from *reserved fund* balance (i.e., not available for appropriation).

Fund balance may not be available for appropriation (i.e., reserved) for a variety of reasons. Some resources of a governmental fund, by their very nature, cannot be spent (e.g., prepaid rent and inventories of supplies). Other resources may convert to spendable form only at a much later date (e.g., the long-term portion of notes receivable). Still other resources may be available for spending, but their use is externally restricted to a purpose narrower than the purpose of the fund in which they are reported.

In addition, governing bodies themselves frequently place their own limitations on how they will use resources otherwise available for appropriation (e.g., "earmarking"). Likewise, a government's management may have tentative plans for all or a portion of those resources. In either case, a government has the *option* of indicating these tentative managerial plans and self-imposed limitations by presenting a portion of unreserved fund balance as *designated*.

This current approach to classifying fund balance is summarized in Exhibit 1.

Exhibit 1: Current Components of Fund Balance (Focus on Availability for Appropriation)

- **Reserved fund balance** (not available for appropriation)
  - o Portion of net resources that *cannot ever be spent* because of their form
  - o Portion of net resources that *cannot yet be spent*
  - o Portion of net resources that *cannot be spent for any and all fund-related purposes* because of external limitations
- **Unreserved fund balance** (available for appropriation)
  - o **Designated unreserved fund balance** (available for appropriation, with a limitation on use imposed by the government itself)
    - Portion of net resources subject to limitations imposed by the governing body
    - Portion of net resources set aside by management in connection with its tentative plans
  - o **Undesignated unreserved fund balance** (available for appropriation, with no external or internal limitation)

Three considerations led the GASB to undertake its recent reexamination of the components used to report fund balance. First, the traditional terminology is not self-explanatory and has frequently led to misunderstandings. Second, governments often have applied the different categories inconsistently in practice. Finally, some have questioned whether the historic focus on availability for appropriation best serves the needs of financial statement users.

NEW GUIDANCE

Focus. GASB Statement No. 54 will shift the focus of fund balance reporting from the *availability* of fund resources for budgeting to "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[1]

Components of fund balance. GASB Statement No. 54 establishes five components of fund balance. Because circumstances differ among governments, not every government or every governmental fund will report all of those components.

Constraints on how amounts can be spent are not really an issue for resources that are *inherently nonspendable*. Examples include inventories and prepaids; the long-term portion of loans receivable[2]; and nonfinancial assets held for resale.[3] Still other resources cannot be spent because *legal or contractual provisions require that they be maintained intact* (e.g., the principal of an endowment). GASB Statement No. 54 directs that the portion of fund balance reflecting both be labeled ***nonspendable fund balance***.

Not all limitations on how resources may be used have the same force. Some limitations are externally enforceable and lie beyond the power of the government to change unilaterally (e.g., restrictions imposed by a grant contract or a bond covenant). Other limitations are self-imposed, but would require formal action at the highest level of the government to remove (e.g., resources legally "earmarked" for a given project by the governing body). Still other limitations are less binding and function more as a declaration of intent. GASB Statement No. 54 has created a separate category to accommodate each of these situations.

- ***Restricted fund balance.*** The term *restricted fund balance* will encompass net fund resources subject to externally enforceable legal restrictions. It is no accident that the term *restricted fund balance* so closely resembles the term *restricted net assets* used in the context of government-wide financial reporting. In both cases, the restrictions concerned would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.[4] Note that there is no need for the limitation to be narrower than the purpose of the fund.[5]

- ***Committed fund balance.*** The term *committed fund balance* will be used to describe the portion of fund balance that represents resources whose use is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation would need to occur no later than the close of the reporting period. Note, once again, that there is no requirement that the limitation be narrower than the purpose of the fund.[6]

- ***Assigned fund balance.*** The *assigned fund balance* category will cover the portion of fund balance that reflects a government's *intended* use of resources. Such intent would have to be established at either the highest level of decision making, or by a body (e.g., finance committee) or an official designated for that purpose.[7] Logically speaking, a government cannot *assign* resources that it does not have; therefore, the amount reported as *assigned fund balance* could never exceed total fund balance less its nonspendable, restricted, and committed components. Once again, note that there is no requirement that the limitation be narrower than the purpose of the fund.

Of course, the general fund, as the principal operating fund of a government, may have net resources in excess of what is properly categorized in one of the four categories just already described. If so, the surplus will be presented as ***unassigned fund balance***. A positive amount of unassigned fund balance, however, will never be reported in a governmental fund other than the general fund, because GASB Statement No. 54 prohibits reporting resources in another fund unless they are at least *assigned* to the purpose of that fund. All the same, funds other than the general fund could report a negative amount of unassigned fund balance should the total of nonspendable fund balance, restricted fund balance, and committed fund balance exceed the total net resources of the fund.

The new components of fund balance are summarized in Exhibit 2.

Exhibit 2: New Components of Fund Balance – GASB Statement No. 54 (Focus on Extent to which Government Is Bound to Honor Constraints on the Specific Purposes for Which Amounts Can Be Spent)

- **Nonspendable fund balance** (inherently nonspendable)
    - Portion of net resources that cannot be spent because of their form
    - Portion of net resources that cannot be spent because they must be maintained intact
- **Restricted fund balance** (externally enforceable limitations on use)
    - Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments
    - Limitations imposed by law through constitutional provisions or enabling legislation
- **Committed fund balance** (self-imposed limitations set in place prior to the end of the period)
    - Limitation imposed at highest level of decision making that requires formal action at the same level to remove
- **Assigned fund balance** (limitation resulting from intended use)
    - Intended use established by highest level of decision making
    - Intended use established by body designated for that purpose
    - Intended use established by official designated for that purpose
- **Unassigned fund balance** (residual net resources)
    - Total fund balance in the general fund in excess of *nonspendable*, *restricted*, *committed*, and *assigned* fund balance (i.e., surplus)
    - Excess of *nonspendable*, *restricted*, and *committed* fund balance over total fund balance (i.e., deficit)

Stabilization arrangements. Governments often establish “rainy day funds” or “contingency funds” to provide a financial cushion against unanticipated adverse financial or economic circumstances. The appropriate classification of such resources within fund balance depends on the specific nature of the arrangement.

On the one hand, if the use of the resources is limited in a way that is legally enforceable by an outside party, classification as restricted fund balance would be appropriate. On the other hand, if the limitation was imposed by the highest level of decision making and can only be removed by formal action equivalent to the action taken to impose it, the use of the committed fund balance classification would be appropriate. It would never be appropriate, however, to classify such resources as assigned fund balance.

GASB Statement No. 54, paragraph 20, places serious limits on what qualifies as a *stabilization arrangement* for this purpose:

> The formal action that imposes the parameters for spending should identify and describe the specific circumstances under which a need for stabilization arises. Those circumstances should be such that they would not be expected to occur routinely. For example, a stabilization amount that can be accessed "in an emergency" would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed, and it is not unlikely that an "emergency" of some nature would routinely occur. Similarly, a stabilization amount that can be accessed to offset an "anticipated revenue shortfall" would not qualify unless the shortfall was quantified and was of a magnitude that would distinguish it from other revenue shortfalls that occur during the normal course of governmental operations.

Appropriated fund balance. Not infrequently, governments balance their budget by appropriating a portion of existing fund balance to bridge the gap between appropriations and estimated revenues. The portion of fund balance thus appropriated for the following year would properly be classified as assigned fund balance.

Flow assumptions. Frequently resources for a single project will come from multiple sources. For example, a city may elect to finance a new bridge partially from restricted grant proceeds (*restricted fund balance*), partially from earmarked revenues (*committed fund balance*), and partially from other available resources expressly set aside for the purpose (*assigned fund balance*). In that case, flow assumptions would be needed:

- When both restricted resources and other resources are to be used, how are outlays allocated to each (e.g., restricted resources presumed to be spent first? Spending presumed to occur on a pro rata basis?)?
- When committed, assigned, and unassigned resources are to be used, how are outlays allocated among the various categories?

COMPARISON OF OLD AND NEW

Perhaps the best way to gain an understanding of the new fund balance categories is to contrast how certain specific items are reported today with how those same items will be reported in the future under GASB Statement No. 54.

Reserved fund balance. Currently, reserved fund balance comprises three elements:

- Resources that by their very nature cannot be spent (e.g., prepaid rent)
- Resources that are not yet available for spending (e.g., long-term portion of loans receivable)
- Resources externally restricted to a purpose narrower than the fund

The first of these elements will *always* be reported as nonspendable fund balance. The second element *normally* would be reported as nonspendable fund balance (i.e., unless there was a limitation on how the amounts eventually received could be used, in which case the classification would be restricted, committed, or assigned fund balance, as appropriate). The third element will be reported as restricted fund balance.

Designated unreserved fund balance. Currently this category comprises two elements:

- Limitations that the government places upon itself
- Tentative management plans

Net resources currently reflected in the first category will be reported in the future as either committed fund balance or as assigned fund balance, depending upon the source of the limitation. The latter will be reported as either assigned fund balance (if management is designated to make such assignments) or unassigned fund balance.

Undesignated unreserved fund balance. Today this residual category includes resources whose use is limited, but not for a purpose narrower than the purpose of the fund. Under GASB Statement No. 54, there is no requirement that a limitation be narrower than the purpose of the fund. Accordingly, items that are restricted, committed, or assigned simply for the purpose of the fund will be reported as restricted, committed, or assigned fund balance.

Also, reporting designated unreserved fund balance today is optional. Under GASB Statement No. 54, the use of the equivalent category (i.e., assigned fund balance) will be required. Therefore, many governments that today do not report designated unreserved fund balance will report as assigned fund balance a portion of what today is labeled simply unreserved fund balance.

EFFECTIVE DATE

Governments will need to implement GASB Statement No. 54 starting with the fiscal period that ends June 30, 2011. In the statistical section of the comprehensive annual financial report, retroactive implementation is encouraged, but not required. If a government declines to restate amounts from previous years in the statistical section, it will need to provide an explanation.

Notes

[1]GASB Statement No. 54, paragraph 5.
[2]Assuming that there are not constraints on the use of the amounts eventually collected.
[3]Assuming that there are not constraints on the use of the proceeds of the eventual sale.
[4]The criteria for restricted net assets set forth in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, paragraph 34, are identical to the criteria for restricted fund balance in GASB Statement No. 54, paragraph 8.
[5]If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is subject to restrictions, then those items should be reflected in *restricted fund balance*, rather than in nonspendable fund balance.
[6]If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is committed, then those items should be reflected in committed fund balance, rather than in nonspendable fund balance.
[7]If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is assigned, then those items should be reflected in assigned fund balance, rather than in nonspendable fund balance.

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GASB Statement 54 – Focusing on Special Revenue Funds

by State Auditor's Office

One of the more challenging provisions in the new GASB 54 reporting standard will be the correct presentation of special revenue funds. To help facilitate implementation, our office has been working with Governmental Accounting Standards Board (GASB), Government Finance Officers Association (GFOA), and National Association of State Auditor's Comptrollers, and Treasurers (NASACT) to seek guidance for correct presentation. The following discussion focuses on some of the issues encountered when evaluating the presentation of special revenue funds under the new standard.

Background

The Governmental Accounting Standards Board (GASB) issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in February 2009. It will be in effect for reporting periods after June 15, 2010.

This standard is designed to increase financial comparability through standardization of fund balance reporting and use of funds. GASB 54 shifted the focus from activities accounted for in a fund to the resources received in a fund. The pronouncement covers the changes in two sections:

1. Governmental fund balance reporting
2. Governmental fund type definitions

In general, the definition of fund balance components and the fund definitions have been fairly straightforward. The new special revenue fund definition contains criteria requiring a specific revenue composition before it can be reported as a special revenue fund.

Governmental Fund Type Definitions

The new definitions for governmental fund types in Statement 54 may require many entities to modify their reporting fund structure. The most significant change is in the use of special revenue funds.

Paragraphs 30 and 31 contain GASB's new definition for a special revenue fund and state, in part:

> Special Revenue funds are used to account for the proceeds of resources that are restricted or committed for purposes other than debt service or capital projects.... The restricted or committed resources need to comprise a <u>substantial</u> portion of the inflows reported in the special revenue fund.

Therefore, entities need to evaluate resources received to determine if they qualify for reporting in a special revenue fund. An activity may no longer be reported as a special revenue fund based only management's desire to account for it separately. The new definition will result in some entities having to include special revenue funds into the general fund.

Determination of Special Revenue Funds

The standard requires "revenue" to be recognized in the special revenue fund. If the resources initially are received in another fund, such as the general fund, and subsequently transferred to a special revenue fund, they should not be recognized in the fund initially receiving them. They should be recognized as revenue in the special revenue fund from which they will be expended.

Entities may use this calculation to determine whether an activity would qualify for reporting as a special revenue fund.

$$\text{Substantial portion of inflows} = \frac{(\text{restricted revenues} + \text{committed revenues})}{\text{Total Inflows reported in the fund}}$$

In the calculation restricted revenues are defined as resources externally restricted or having restrictions imposed by internal enabling legislation (same definition as restricted net assets used in government-wide reporting). The committed revenues are resources with constraints imposed by the highest level of the government, where the constraints can be removed only by a similar action of the same governing body. Total Inflows are defined as the inflows of all financial resources. Total inflows will include transfers and other financing sources such as debt issuances.

While GASB has not provided a numeric range for substantial portion of inflows, the Government Finance Officers Association has indicated "around 20 percent" is reasonable for justifying a special revenue fund. Entities also need to consider factors such as past resource history, future resource expectations and unusual current year inflows such as debt proceeds.

This is one of many topics to surface with GASB Statement 54. Our Office will provide additional guidance on reporting requirements for this pronouncement in the 2011 Budgeting, Accounting, and Reporting System (BARS) manual updates.

Some Questions and Answers Related to GASB 54

If a state law requires local governments to create a separate fund for specific activities and that fund does not meet the new special revenue definition, can the local government report such a fund as a special revenue fund in its external financial report?

GASB answer: Funds should not be reported in external financial reports if they do not meet the definition in the standard, regardless of legal requirements for maintaining separate funds. Activity that does not meet the definition of a special revenue fund should be included into the general fund in external financial reports. However, those activities may be presented as supplemental information.

Which entities in Washington State will be affected by GASB statement 54?

This standard will affect all entities reporting governmental funds. This includes those reporting on the cash basis as well as those using Generally Accepted Accounting Principles. Our Office maintains a database of financial activity for all local governments. For this information to be comparable, all entities must report using the same fund structure. Thus, when GASB issues a statement requiring changes in fund structure it carries over into all of our Office's BARS manuals, including the prescription for cash-basis entities.

Planning for Increases in Pension Contributions for Cities and Counties

by Matt Smith, Washington State Actuary

The state has begun the contribution-rate adoption cycle for the state's 2011-13 pension budget. The process begins with recommendations, based on current law, from the State Actuary. Specifically, the State Actuary recommends contribution rates to the Pension Funding Council (PFC) and the Law Enforcement Officers' and Fire Fighters' Plan 2 (LEOFF 2) Retirement Board based on the economic assumptions, actuarial methods, and funding policies specified in the Actuarial Funding Chapter – Chapter 41.45 RCW.

The State Actuary presented preliminary rate recommendations to the PFC and the LEOFF 2 Board at their June meetings. The results are considered preliminary until the completion of the audit by an outside actuary. Both the PFC and LEOFF 2 Board will adopt final contribution rates for 2011-13 in July. **These rates are then subject to revision by the Legislature during the 2011 Legislative Session.**

Here's a summary of the preliminary rate recommendations for 2011-13 from the State Actuary:

Preliminary 2011-13 Employer Contribution Rates*

System	Current	2011-12	2012-13
PERS 1, 2, and 3	5.15%	8.45%	9.14%
PSERS	7.69%	10.11%	10.80%
LEOFF 1	0.00%	0.00%	0.00%
LEOFF 2	5.08%	5.07%	5.07%

** Excludes administrative expense rate of 0.16%.*

Preliminary 2011-13 Employee Contribution Rates

System	Current	2011-13
PERS 1	6.00%	6.00%
PERS 2	3.90%	4.59%
PSERS	6.55%	6.36%
LEOFF 1	0.00%	0.00%
LEOFF 2	8.46%	8.45%

What's Driving These Large Increases?

Contribution rates for both employers and Plan 2 employees are returning to sustainable long-term levels and are projected to increase above those levels due to past funding shortfalls and benefit improvements. Employer contribution rates in PERS and PSERS are increasing more steeply due to legacy costs (payments to reduce unfunded liabilities) from PERS 1. All employers in PERS and PSERS pay toward the PERS 1 unfunded liability.

Will These Increases Really Happen?

Yes. It's really a question of when and how much. Should the Legislature decide to defer all or a portion of these rate increases for 2011-13, the contributions required in the future will increase more to make up for this shortfall. We won't know the final decision on contribution rates for 2011-13 until the Spring of 2011 (after the conclusion of the 2011 Legislative Session).

So, how can you plan ahead in your budgets? The State Actuary suggests you budget for the full increases provided above. If the Legislature defers some of the recommended increases, the State Actuary further suggests that you earmark and dedicate, to the extent possible, any savings for future contribution rate increases in later budgets.

What About the Gain-Sharing Lawsuit?

A class action lawsuit was filed on the same day the Governor signed into law the bill that repealed future gain-sharing benefits and provided certain replacement benefits (EHB 2391, 2007 Session). The lawsuit challenges the legality of the repeal, requests the reversal of the repeal, and further asks the Court to retain the replacement benefits granted. (EHB 2391 provides for the prospective removal of certain replacement benefits should a final court decision reinstate gain-sharing).

The consolidated class action lawsuit is currently before the King County Superior Court. Final motions for summary judgment are before the Court in June. A ruling on these motions could occur this Fall. An immediate appeal of the Superior Court's decision, regardless of the outcome, is expected. If both parties agree, the appeal could be advanced directly to the State Supreme Court.

Additional Information

I encourage you to contact the Office of the State Actuary for additional information. A link to the State Actuary's website is provided below as well as links to recent presentations to the PFC and LEOFF 2 Board.

OSA's website: http://osa.leg.wa.gov/index/index.htm

OSA's June 25, 2010, presentation to the Pension Funding Council:
http://osa.leg.wa.gov/Actuarial_Services/Publications/PDF_Docs/Presentations/PFC-AVR-PrelimResults6-25-10.pdf

OSA's June 16, 2010, presentation to the LEOFF 2 Retirement Board:
http://www.leoff.wa.gov/board/documents/AgendaItem3-Preliminary_AVR_Results.pdf

Strength Out of Stress: the Refiner's Fire

by Lynn Karl Nordby, MRSC Public Policy and Management Consultant

I've always held a somewhat organic view of systems and organizations, seeing examples in nature that illustrate the way people and institutions respond to the things that happen around and to them.

- Trees that grow up in a forest surrounded by other trees are less able to resist a strong wind than trees that grow up exposed to strong winds year after year.
- Muscles get stronger only when repeatedly stressed through exercise.
- Precious metals must be melted in a crucible over a refiner's fire so that impurities are either burned away or rise to the surface where they can be skimmed off as slag.
- Annealing soft metals by hammering and heating them changes the molecular structure to make them harder or more resilient.
- Some seeds only germinate after exposure to fire.

If these analogies hold true with institutions, as I believe they do, then local government can emerge from this stressful period stronger and more focused than ever. As hard as it may be to accept the demise of projects or programs you've successfully provided in the past, the heritage of your public service will live on. For example, I recently heard that the operation of the municipal cemetery in a community I once served is to be contracted to the local funeral home. While I was there, we were proud to be able to operate it "in the black" for many years. Apparently that's no longer the case. If a project or program truly has merit, it will survive in its new form for the benefit of the community.

We didn't enter public service to build a personal legacy. Regardless of the history of the city's public services that may currently be under stress, if the services must be contracted to another agency or the private sector so that they may continue to service the public efficiently, so be it. What matters is that the public is still served. The heritage is still there, the past can't be changed, what we were proud of before is still valuable and is still there in its new form. The accomplishments of the past established the service in the first place and made it possible to hand over something to new management now.

The news brings story after story about the loss of state and local revenue and the resultant reductions in services and layoffs or furloughs of public employees. Very few localities have escaped the effects of the Great Recession. It has caused such a precipitous drop in the revenue necessary to support governmental services that severe cuts have been made from the levels they were prior to the collapse.

It can be hard to accept when you see or hear about accomplishments, projects, and programs you've been responsible for, or personally taken part in, during your career, being considered for cancellation or outsourcing to another agency or the private sector. Services that were once considered very successful and were highlighted on our resumes are now highlighted as unsustainable and marked for termination.

We may be seeing some improvement in the economy. Fewer applications for unemployment benefits are being filed; more cars and houses are being sold. What should we make of this? Some believe, optimistically, that things can and will return to some version of "normal." After all, didn't we have a pretty strong economy before investment banks and hedge funds began playing fast and loose? Won't it be possible to return to a level of economic stability and prosperity, though not quite as superheated as it was before it melted? Maybe that will be the "new normal." We can reinstitute the programs and services we proudly offered to our citizens but, perhaps, at a slightly reduced level.

Maybe not.

First, most analysts predict that even with a national economic recovery it could take from 18 months to two years or more before we begin to see a recovery in local government revenue. On top of that, even though federal taxes are actually at the lowest level in 60 years, the anti-tax movement seems stronger and louder than ever. We know that there will be growing tax revenue needs at the national level as the "baby boom" generation begins claiming its Social Security and Medicare benefits, not to mention the uncertain future cost of current or future health care reform initiatives. Finally, previous tax cutting measures such as Initiative 747 (which set a new, much lower, ceiling on local property tax revenues with a built-in "growth" factor of one percent or the rate of inflation, whichever is less) have resulted in an even lower starting point for recovery and will all but guarantee that local government revenue will probably be in a hole for a long, long time.

Unlike a private enterprise that has the option of simply closing its doors, public services have to carry on in the face of economic reality. Critics simplistically demand cuts in waste. What is occurring is accomplishing that, one way or another. Years after Proposition 13 was passed in California, one of the criticisms of the state's response was that the state provided funds to local governments to make up the lost revenue. The public didn't perceive any of the drastic consequences of the tax cut that were predicted by its opponents. Here in Washington, Initiative 695 and chapter 2, Laws of 2000, 1st sp. sess., repealing the motor vehicle excise tax (MVET), was responded to in much the same way. The state provided "backfill" payments to the most heavily impacted jurisdictions; thus, combined with the real estate "bubble," the real structural defects of local government finances were disguised so that the results of the huge tax cut were not seen as a cause-and-effect by the general public. In several cities I am aware of the loss of sales tax equalization (funded by the MVET) ranged from nearly a million dollars to almost four million dollars a year. Those funds would have gone a long way toward plugging the current holes in their general funds and keeping up with basic services, like street maintenance, public safety, and preventing furloughs. But in the early 2000s, the true impact was hardly noticed. The impact on smaller communities, though of lesser magnitude, was just as devastating.

Any hope of gaining local support for new tax revenue will require convincing voters that the value of local services outweighs the added cost. The British call it "value for money," a pretty straight forward expression of the principle.

One of my colleagues once said that trying to find the fat in the city budget was like trying to find fat in hamburger. With care, the transition to alternate forms or methods of service delivery will respect the efforts of the past to build the communities we enjoy today, while the "fat" is rendered out of the "hamburger." The result will be local government that is certainly smaller. If the process has been open and the consequences fully understood, local government should also be more credible in the eyes of its citizens. The challenge for many has been to continue to provide public services in the face of a persistent erosion of local revenue. Discretionary expenditures are deferred or cancelled, and essential services are reduced to minimal acceptable levels. Openness and candor during the process and about the consequences can help avoid the detachment of cause from effect as was reported about Proposition 13 in California and that may have contributed support for further anti-tax measures in Washington following I-695.

As local governments search for remedies, such as outsourcing or discontinuing certain services altogether, we need to keep in mind that simply shifting the responsibility to someone else may not be the final answer.

UPS and FedEx are often held up against the US Postal Service for comparison. As easy as it is to bash the Postal Service, neither UPS nor FedEx have the mandate to serve every address, every business day. They take only a fraction of the freight, charge a premium, and size their staffs and fleets accordingly. Public services aren't always the most efficient, due to their mandates. Private providers may end up being unable to make a profit under those conditions. Public agencies may be called upon to step forward again in the interest of public service.

Some strength may emerge from this economic crucible

Externally – Working with community groups and leaders of the business community, we may be able to identify and recruit businesses that enhance the local mix and broaden our economic base. New volunteers or candidates for appointed positions or elective office may be drawn to service by local needs.

Internally – Restructuring job descriptions and responsibilities that have hindered creativity, responsibility, and flexibility will lead to a more efficient and responsive organization. Process improvements that promote maximum performance by eliminating unproductive, redundant procedures that cost time and money and add little value will reap long term dividends.

Fiscally – The structural defects of local government finance are being exposed. If we've been open and candid in our response, we stand a better chance of having them acknowledged and rectified. Already this year, the state legislature has responded with ESHB 3179, which provided a potential, new local option revenue source for cities; repealed non-supplanting requirements in previously authorized local option taxes; broadened the uses of gambling taxes; and addressed the impacts of the adverse court decision on taxing brokered natural gas. (See the discussion of ESHB 3179 on page 5.)

Politically – Responsible local action, taken openly with an honest representation of the consequences, builds credibility with the public. If you promise dire consequences, they need to be delivered as surely as good ones do. Sugar coating the problems associated with the cuts that need to be made only creates a trap to deal with later on. In the end, if the economy can't deliver the revenues to support the level of services, it will be up to the public to approve restructured tax systems or accept the services the present system can support.

Legislature Enacts Community Facilities District Legislation – A Very Modest Step

by Hugh Spitzer, Foster Pepper PLLC

The 2010 Washington Legislature has created a new local government financing tool through the enactment of ESSB 6241 (Chap. 7, Laws of 2010). The bill allows cities and counties to create community facilities districts ("CFDs") to finance infrastructure improvements through special assessment districts. ESSB 6241 began as a sprawling bill that meant to vest a remarkable array of finance powers in mini-governments created by property owners within existing municipalities. The initial concept was to mimic "Mello-Roos" districts in California and similar developer-driven financing districts in other states. There were many legal and financing issues raised by the legislation as originally proposed, and the Washington statute, as enacted, is quite modest in scope.

Under ESSB 6241, formation of a CFD requires a petition from 100% of the landowners within the proposed district. The petition sets the district's boundaries, describes the specific facilities to be financed, lists property owners willing to serve on the CFD's board of supervisors, proposes a method of assessment and preliminary assessment roll, and describes the proposed security for timely payment of assessments and bonds. After a public hearing process, the legislative authority of the city or county may choose to create the CFD. If created, the board of supervisors consists of three members of the legislative authority and two of the landowners.

Once formed, the CFD may proceed with the formation of a special assessment district to finance a broad array of planned improvements—water, sewer, storm drainage, roads, sidewalks, lighting, traffic signals, and many other types of infrastructure. The list is comparable to the range of improvements that can be financed through a city local improvement district under RCW 35.43.040. The board of supervisors both creates the special assessment district and determines the final assessments. The CFD may issue assessment bonds to finance the improvements. The CFD also may foreclose on properties that fail to timely pay assessments.

ESSB 6241 may be a useful tool in certain circumstances. The formation of a CFD gives property owners a bit more control over the special assessment district than they have in the traditional local improvement district process. And, under current law, local improvement districts and road improvements formed by counties for unincorporated areas may finance only water, sewer, stormwater, road street light and certain related projects—the CFD adds to the list of eligible improvements in unincorporated areas (including parks, playgrounds, utility undergrounding, mass transit facilities, parking, dikes, and programs of aquatic plant control, lake or river restoration or water quality enhancement). Apart from that, a CFD adds little to what can be accomplished with LIDs formed by cities or counties in response to landowner petitions. In fact, CFDs might turn out to be more difficult to create, since they require 100% property owner approval while traditional LIDs require petitions signed by just 51% of the owners of land subject to assessment. Further, many cities and counties may be resistant to creating another level of government when the benefits are so modest.

The biggest challenge to CFDs will be providing adequate security for CFD bonds when the land involved is undeveloped and not worth sufficiently more than the assessment roll. While cities and counties typically have an ongoing local improvement guaranty funds to back their bonds, and cities have a special property tax that is imposed city-wide if the guaranty fund runs out, CFDs will not have the backing of an established guaranty fund. CFDs will be able to size their assessment rolls sufficient to create reserve funds from bond proceeds. However, in many instances that still might not provide sufficient security for bondowners, and underwriters will require letters of credit, certificates of deposit or other types of security from the landowners to ensure payment of assessments until the related land values are many times higher than the value of outstanding assessments.

For additional information, please contact Hugh Spitzer (206.447.8965).

Do You Know Where Your Cash Is?

by Mike Bailey, Finance Director, City of Redmond

It is a bit dated now, but there once was a famous line: “do you know where your teenager (or some other subject of interest) is?” This is the thought I had when asked to put some thoughts together for an article on managing cash (and investments) in this difficult economic climate. In my experiences, I’ve seen several situations where the answer to that question (do you know where your cash is?) was “NO!”

Knowing where your cash is strikes me as fundamentally important to the government finance officer for many reasons. First there is the obvious; control of cash is a fundamental goal of internal control systems. Such systems are designed to safeguard assets of which I would classify cash as one of the most important. Whether it is preventing loss from theft or fraud, or preventing loss from investments that you are not adequately familiar with, control of cash (and cash equivalents) is crucial. Investment program policies typically have three tenets: safety, liquidity and rate of return. Safety is first for a reason. As a result sound internal control programs will have as a focus the safety of cash and cash equivalents (whether it is cash in transit, cash in hand or invested cash). This is a great place to start.

As I’ve said, I’ve encountered occasions where this wasn’t the case. For example a manager at the library called to say there was a problem with their financial reports in that the revenues were being underreported. Investigation revealed that (unfortunately) the revenue reports were accurate. The real problem was that they were sending their deposits through the interoffice mail to the treasurer (on an irregular schedule). Upon receipt of such an envelope, the treasurer confirmed the contents and made the deposit with the bank on their behalf. When we investigated the complaint by comparing the interoffice deposits sent by the library to those received by the treasurer there was a discrepancy. Where did the missing envelopes go (we wondered)? With no “chain of custody” (that is where one person signs that they are handing the cash off to another and the recipient signs that they’ve received the right amount of cash) we had no idea where the envelopes went missing. It wasn’t a lot of money (which is what lead those involved to believe it was an acceptable procedure) but any direct loss of public funds is a problem.

However, this isn’t an article about internal controls (though I hope I’ve caused you to wonder about that part of my question – do you know where your cash is). Another aspect of this question is the organization-wide management of the cash (and equivalents) as they pass from a customer into your possession wherever that may occur. For instance, I’ve encountered the following “flow chart” with regard to the movement of cash from the customer’s hands, into our systems (which includes recreation, building permits, fire permits, gun permits and many others).

Chart 1
Prior flow of funds (and accountability)

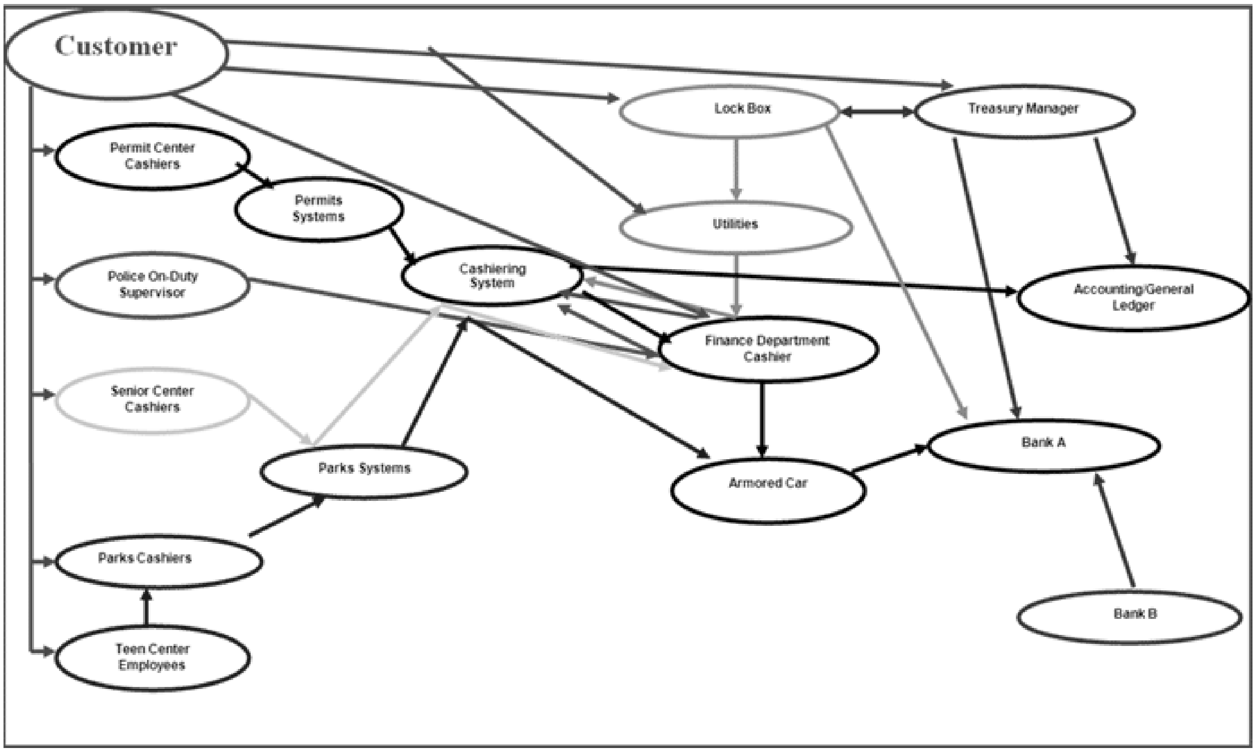
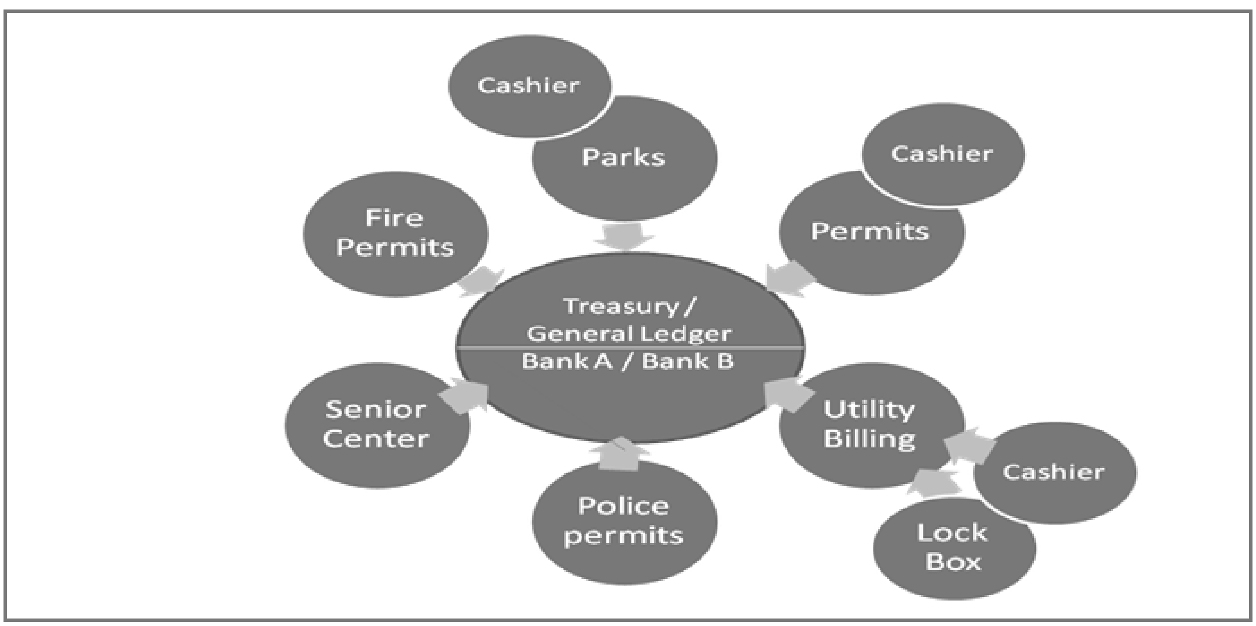


Chart 2
New flow of funds (and accountability)



In this first example (Chart 1) we see the potential for improved efficiency in handling public funds (a bit of an understatement). This organization had never thought about managing cash from an organization-wide perspective before. Each cash receipting operation was developed in isolation. Each process individually made sense, but taken together they can obviously be made into a more cohesive (and more efficient) system. With this chart we started to unravel the disparate systems and worked to blend them into one comprehensive approach that made the management of cash within the system much more efficient (Chart 2 above). We were able to put the cash to work more quickly as well.

A third example is using cash as a key ingredient to confirm the financial house is in order. Much of the various types of financial transactions are managed through computer systems these days. We process purchase orders, pay bills, pay employees, withhold money for various benefits (and pay those vendors), reimburse petty cash accounts, process accounts receivable invoices, accept direct payments from customers and numerous other types of financial transactions. There can be thousands of transactions a month representing dozens of different types of processes. How can we be sure that these are all occurring as they should? In addition, as we summarize all of these transactions into succinct financial reports, how can we be sure the data we get in these summary financial reports is accurate? In my experience the best way is through old fashioned cash reconciliations.

Cash is (what I call) the ultimate filter for many of the financial transactions at some point in their process. The benefit of a solid cash reconciliation element to your internal controls is that it uses an external source (the activity in your cash and investment accounts maintained by the respective institutions) to compare against all of the internal activity described above. If there is a problem with one of the above processes, at some point it will likely result in a problem with the bank reconciliation. When you encounter that problem (the cash and investments as reported by your outside institutions does not agree with what your systems say it should be) you should investigate it immediately. The problem often is the result of a simple isolated error of some type. However if it is more than an isolated event, this process will often be a sure way to identify the underlying problem and inform you on the best approach to resolve it.

Lastly, managing cash-flow during difficult economic times will help you avoid problems and maximize the benefits of carefully managed cash and investment balances. In conducting peer reviews of dozens of budgets over the past few months I've seen more and more use of cash reserves to balance budgets. This means that those "rainy day" reserves are being drawn down and can no longer be relied upon to cushion cash-flows. For many local governments managing cash-flow is complicated by uneven receipt of revenues. These can include property taxes and other revenues generally only paid at certain times of the year. In these cases, the economic resource is available to fund budgets, but the actual cash may not materialize until later in the year.

While investment rates of return are less than they have historically been it is even more important to have all the cash in the system "working" (i.e. earning interest) to the extent possible. That means:

- getting cash through the various systems and into central repositories as soon as possible
- quickly and easily knowing what amounts of cash exist in the various parts of your systems and how much you can rely on to satisfy obligations (pay bills) and/or have to invest
- quickly and easily knowing what your investment options are in the context of your investment policy and existing portfolio

- quickly and easily being able to execute cash and investment transactions to minimize the downtime for cash

While managing investments is important, the current economy and dwindling reserves may cause more of us to need to assess how to deal with cash deficiencies as well. Short-term borrowing for cash-flow purposes may be necessary. In most cases, our “rainy day” reserves have provided the necessary cash-flow to cover the uneven receipt of revenues. However we may find that short-term borrowing will now be necessary as we have utilized some of those reserves as part of a strategy to preserve service during the economic downturn. If that is the case (short-term borrowing may be necessary and isn’t a normal course of events in your organization) here are a few things to think about:

- Do an even more careful projection of anticipated in-flows and uses of cash over the foreseeable future (the current budget period might be a good place to start). I would refer you to the article “Cash flow and Budgetary Variance Analysis” by Shayne Kavanaugh and Christopher Swanson, *Government Finance Review*, October 2009 for insight into how to accomplish this.
- Know how and when you will be repaying this loan. The cash-flow projection itself should document the ability and timing for repayment of the loan. If it doesn’t you may need to extend the time period for the review or revise your assumptions. Being able to clearly document the ability to repay the loan is very important.
- Work with legal counsel to determine the authority for such a loan. You may determine to borrow from other funds internal to the city or to borrow from a financial institution. In either case you will need to document the legal authority and its related obligations (interest paid on internal loans, legislative authority for the loan itself, etc.)
- Educate your administrative and legislative bodies as to the need for the loan and what taking a loan (which we are presuming is unusual in your entity’s case) signifies. These authorities will want assurance (both your assurance and documented assurance) that the loans will be repaid.
- If you decide to pursue the short-term loan from outside the organization, seek financial advisory services as to how to do this efficiently. If you are new to borrowing in the short-term market you should rely on trusted experts to help you accomplish this in the best possible way for your entity. GFOA has developed best practices on selecting such experts.
- Put the new cash to work. Once a loan is complete it is typically for more than is immediately needed (unless you’ve chosen a line of credit approach). Be sure to be prepared to invest the loan proceeds in accordance with the cash-flow needs of the organization.

Many of the above topics could be a research paper unto themselves. I’ve provided some highlights of the types of issues finance officers and others in the organization should think about while pondering where our cash is. The GFOA has a wide variety of resources on many of these topics both on their website (www.gfoa.org) and as publications (also accessible through the web site).

Initiatives

The proponents of six initiatives submitted signatures to the Washington State Secretary of State by the July 2, 2010 deadline. To make it onto the November 2 ballot, 241,153 signatures have to be certified as valid. As we go to press , Initiatives 1100, 1082, and 1098 have been certified. All these initiatives have something to do with "dollars and cents," but some have a more direct impact on city and county budgets than others. Check our home page, www.mrsc.org, for links to more information on these initiatives.

The "Ballot Measure Summary" narratives (printed in italics) come from the Web pages of the Secretary of State. http://www.sos.wa.gov/elections/

Initiatives 1100 and 1105

Initiative 1100 Ballot Measure Summary: *This measure would direct the liquor control board to close all state liquor stores; terminate contracts with private stores selling liquor; and authorize the state to issue licenses that allow spirits (hard liquor) to be sold, distributed, and imported by private parties. It would repeal uniform pricing and certain other requirements governing business operations for distributors and producers of beer and wine. Stores that held contracts to sell spirits could convert to liquor retailer licenses.*

Initiative 1105 Ballot Measure Summary: *This measure would close all state liquor stores and license private parties to sell or distribute spirits. It would revise laws concerning regulation, taxation and government revenues from distribution and sale of spirits.*

Both initiatives would eliminate some city and county liquor revenues and funding sources for MRSC (Municipal Research and Services Center), they would decrease state general fund revenues; and they could have a negative impact on public safety expenditures.

City and County Liquor Revenues. Cities and counties each get a share of liquor board profits and liquor excise taxes, based on their populations.

Liquor board profits consist of the difference between revenue generated by the Washington State Liquor Control Board and the board's expenditures, specific revenues collected for a dedicated purpose, and administrative fees attributable to specific licensees that serve hard alcohol. Revenues are generated from sales at state liquor stores, taxes collected on wine and beer manufacture and distribution, licensee fees, alcohol related permit fees, penalties, and forfeitures. Liquor board profits are divided among the state, cities, and counties. After the distribution of a small amount to border cities and counties, the state general fund receives 50 percent of the revenue, cities get a 40 percent share, and counties receive 10 percent.[1] For calendar year 2010, cities are forecast to receive $34.072 million in liquor board profits, with the per capita amount being $8.21. For counties, the 2010 distributions are estimated to be $9.082 million and $3.56 per capita.

[1]RCW 66.08.190.

The state receives 65 percent of the **liquor excise tax** collections, with cities getting 28 percent and counties, seven percent.[2] For calendar year 2010, cities are estimated to receive $20.551 million in liquor excise taxes, with the per capita distribution being $4.95. For counties, the total 2010 distribution is estimated to be $4.668 million with $1.86 for the per capita allocation. See Tables 3, 4, 5, and 6 on pages 25 and 26 for information on historical distributions and forecasts for 2011.

Both Initiative 1100 and Initiative 1105 would close state liquor stores, eliminating the source of liquor board profits. In addition, Initiative 1105 would repeal the liquor excise tax. Initiative 1105 claims in its intent section (101(1)) that privatization will "not result in revenue losses to state or local governments," a claim based on that initiative's directive (Sec. 101(3)) to the liquor board to recommend a liquor tax rate "that, along with other spirits-related revenue sources, would project to generate at least the same annual revenue for the state and local jurisdictions as under the current state control system." Passage of Initiative 1053, requiring a two-thirds majority vote for new or increased taxes, would make passing a new liquor tax difficult.

MRSC Revenues. Almost all of the funding for the Municipal Research and Services Center comes from cities (76.7 percent of its 2011 budget) and counties (15.9 percent). The city share is paid out of their liquor board profit receipts, which would be eliminated by both initiatives. The county share is paid out of their liquor excise tax receipts, which would be repealed by Initiative 1105.

Comparison of Initiatives 1100 and 1105

Revenue Sources and Timing	I-1100	I-1105
Liquor Board Profits	Eliminates distributions to cities and counties. MRSC loses revenue source for the city program.	Eliminates distributions to cities and counties. MRSC loses revenue source for the city program.
Liquor Excise Taxes	No effect.	Repealed, so no distributions to cities and counties. MRSC loses revenue source for the county program.
Timing	Retail licensees may begin to sell liquor on June 1, 2011. State must shut down all liquor store operations by December 31, 2011.	Retail licensees may begin to sell liquor on November 1, 2011. State must shut down all liquor store operations by April 1, 2012. Liquor excise taxes repealed April 1, 2012.

[2]RCW 82.08.160 specifies that 35 percent of the total tax collected under RCW 82.08.150 must be deposited in the "liquor excise tax fund." Per RCW 82.08.160, 80 percent of the monies in the liquor excise tax fund is distributed to cities. (.35 x .8 = .28.) Twenty percent is distributed to counties. (.35 x .2 = .07.)

Other Effects. In its Interim Bulletin #2, published July 9, 2010, the Association of Washington Cities (AWC) reports that the Washington State Office of Financial Management must prepare a fiscal note on the initiatives by August 10, 2010. This note will describe the revenue losses to the state if either of these initiatives passes. State revenue losses would have an indirect effect on local governments. AWC will be working with cities to measure the impact of these initiatives on local law enforcement costs.

(Initiative 1100 is supported by Costco and retailers. Initiative 1105 is backed by wholesale beverage distributors.)

Initiative 1053

Ballot Measure Summary: *This measure would restate the existing statutory requirement that any action or combination of actions by the legislature that raises taxes must be approved by a two-thirds vote in both houses of the legislature or approved in a referendum to the people, and it would restate the existing statutory definition of "raises taxes." It would also restate that new or increased fees must be approved by a majority vote in both houses of the legislature.*

The Washington State Legislature passed a bill (ESSB 6130, Chapter 4, Laws of 2010) during the 2010 legislative session that directed that certain parts of previously-passed Initiative 960 be suspended until July 1, 2011. For example, one such suspended provision requires that any tax increase has to be approved by a two-thirds vote of each house of the legislature. If Initiative 1053 is found to have enough signatures to get on the ballot and gets enough votes, this provision would no longer be suspended as of the effective date that the vote is certified – 30 days after the election.

Passage of this initiative, which is sponsored by Tim Eyman, would make it more difficult for the legislature to pass legislation during the 2011 legislation session that could be helpful to local government.

Initiative 1082

Ballot Measure Summary: *This measure would permit certification of private insurers as industrial insurance insurers, and authorize employers to purchase state-mandated industrial insurance coverage through an "industrial insurance insurer" beginning July 1, 2012. It would establish a joint legislative task force to propose legislation conforming current statutes to this measure's provisions, and would direct the legislature to enact such supplemental conforming legislation as necessary by March 1, 2012. It would also eliminate the worker-paid share of medical-benefit premiums.*

Deanna Krell of the Association of Washington Cities (AWC) knows about industrial insurance and we do not. So, we are reproducing her analysis from the AWC *Interim Bulletin No. 2*, July 9, 2010.

> This measure would allow private insurers to compete with the state Department of Labor & Industries (L&I) to offer employers workers' compensation coverage, effective July 1, 2012. The measure would also eliminate the worker-paid share of medical-benefit premiums, shifting those costs to the employer. Washington is one of just four states that

do not allow private companies to offer workers' compensation insurance, although employers may self-insure under guidance from L & I.

Proponents of I-1082, critical of L & I's management of the system, say the added competition would bring about efficiencies and lower workers' comp premium costs. Opponents, led by organized labor and the trial lawyers' association, argue that introducing the profit motive to the system would actually drive costs up and result in less protection for injured workers. (Backed by Building Industry Association of Washington and supported by business and insurance interests)

Initiative 1098

Ballot Measure Summary: *This measure would establish a tax on "adjusted gross income" (as determined under the federal internal revenue code) above $200,000 for individuals and $400,000 for married couples or domestic partners filing jointly; reduce the limit on statewide property taxes by 20%; and increase the business and occupation tax credit to $4,800. The tax revenues would replace revenues lost from the reduced levy and increased credit; remaining revenues would be directed to education and health services.*

For married couples filing jointly, this initiative would impose a five (5) percent tax on their adjusted gross income (federal income tax definition) over $400,000 and a nine (9) percent tax on income over $1 million. For single persons, or married persons not filing joint returns, the tax rate would be five (5) percent on their adjusted gross income over $200,000 and nine (9) percent on their income over $500,000. Some of the receipts from this new tax would be used to fund a 20 percent reduction in the state property tax levy and to increase the business and occupation (B&O) tax credit from $420 to $4,800 to reduce taxes for small business owners.

Proponents of this income tax estimate that it would raise $1 billion after making up for the lost income from the reduction in the state property tax and the B&O tax credit. The money would be put in a trust fund for education and health. (Backed by William H. Gates, Sr. and the Service Employees International Union.)

Initiative 1107

Ballot Measure Summary: *This measure would reverse certain 2010 amendments to state tax laws, thereby: ending the sales tax on candy and the temporary sales tax on some bottled water; and ending temporary excise taxes on the activity of selling certain carbonated beverages, not including alcoholic beverages or carbonated bottled water. It would also reinstate a reduced business and occupation tax rate for processors of certain foods.*

This initiative would repeal a number of measures included in ESSB 6143, discussed previously on page 8. Under ESSB 6143, local governments are forecast to receive an additional $23.7 million in 2011 from sales tax on candy, gum, and bottled water. Somewhat higher tax receipts from these same sources are forecast for 2012 and 2013. If this initiative is certified for the ballot and passes, these items will remain exempt from the sales tax.

The state general fund would also lose funding that was used to balance the budget for the 2011-2013 biennium. Passage of this initiative would mean less money for state programs, which could indirectly have a negative effect on cities and counties. The part of the bill that increases city expenditures – the surcharge on the B&O tax – would not be affected. (Backed by the American Beverage Association.)